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Panel on Economic Development

Minutes of special meeting
held on Tuesday, 16 December 2008, at 4:30 pm
in the Chamber of the Legislative Council Building

Members present : Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Starry LEE Wai-king (Deputy Chairman)
Hon Albert HO Chun-yan
Hon Fred LI Wah-ming, JP
Hon CHAN Kam-lam, SBS, JP
Hon Emily LAU Wai-hing, JP
Hon Albert CHAN Wai-yip
Hon Vincent FANG Kang, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Paul CHAN Mo-po, MH, JP
Hon Tanya CHAN
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun
Dr Hon Samson TAM Wai-ho, JP

Member attending : Hon CHAN Hak-kan

Members absent : Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP

Public officers attending : Agenda Item I

Mr Edward YAU Tang-wah, JP
Secretary for the Environment

Mr Roy TANG Yun-kwong, JP
Deputy Secretary for the Environment

Mr Frankie LAM
Principal Assistant Secretary for the Environment (Financial Monitoring)

Agenda Item II

Mrs Rita LAU NG Wai-lan, JP
Secretary for Commerce and Economic Development

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)

Miss Margaret FONG
Commissioner for Tourism

Ms Ellen CHOY
Assistant Commissioner for Tourism (5)

Attendance by invitation :

Agenda Item I

The Hongkong Electric Company Limited

Mr K S TSO
Group Managing Director

Mr C T WAN
Director of Engineering (Planning & Development)

Mr Neil D MCGEE
Group Finance Director

Mr Steve NG
Group Manager, Finance & Accounting

Agenda Item II

Hong Kong Disneyland

Mr Andrew KAM
Managing Director

Mr B C LO
Vice President, Public Affairs

Clerk in attendance : Ms Debbie YAU
Chief Council Secretary (1)6

Staff in attendance : Ms Angel SHEK
Senior Council Secretary (1)1

Ms Michelle NIEN
Legislative Assistant (1)9

Action

I The Hongkong Electric Co., Ltd 2009-2013 Development Plan

(Ref: ENB CR 2/4576/08 Pt.4	— Administration's paper on The Hong Kong Electric Company Limited 2009 to 2013 Development Plan issued by Environment Bureau (Legislative Council Brief))
LC Paper No. CB(1)473/08-09(01) *(subsequently issued on 22 December 2008)*	— Speaking note of the Secretary for the Environment (Chinese version only)
LC Paper No. CB(1)454/08-09(01) *(tabled and subsequently issued on 18 December 2008)*	— Powerpoint presentation materials on The Hongkong Electric Co., Ltd 2009-2013 Development Plan
LC Paper No. CB(1)454/08-09(02) *(tabled and subsequently issued on 18 December 2008)*	— Speaking note of The Hongkong Electric Company Limited (Chinese version only)
LC Paper No. CB(1)454/08-09(03) *(tabled and subsequently issued on 18 December 2008)*	— Supplementary note provided by The Hongkong Electric Company Limited

Briefing by the Administration

At the invitation of the Chairman, the Secretary for the Environment (SEN) briefed members on The Hongkong Electric Company Limited (HEC) 2009-2013 Development Plan (DP), which was approved by the Chief Executive-in-Council on 16 December 2008. He highlighted the key features of the DP as set out in the LegCo Brief as follows: -

(a) *Capital projects amounting to $12.3 billion during the DP period from 1 January 2009 to 31 December 2013*

HEC had originally proposed a capital expenditure (CAPEX) of $17.4 billion. The Administration had reviewed the DP with an independent energy consultant, Nexant Inc. (Nexant), and critically assessed the need, timing and proposed budget of the capital projects proposed by HEC. Two proposed projects, i.e. a new gas-fired generation unit (L10) and an off-shore wind farm, were considered not justified at this stage as the former would not be needed in the next five years in view of HEC's load requirement and the latter was still at a very preliminary stage and its feasibility was still subject to further detailed studies, including Environmental Impact Assessment. After lengthy discussion, HEC agreed to revise its DP to drop the two projects and reduce its proposed CAPEX by about 30% to $12.3 billion, which was in real terms lower than the CAPEX of the current Financial Plan.

(b) *Reduction of Basic Tariff and Net Tariff by 19.2% and 5.9% respectively on 1 January 2009*

Based on the revised CAPEX and a lowered permitted rate of return of 9.99% on the Average Net Fixed Assets (ANFA) under the new Scheme of Control Agreement (SCA), the Basic Tariff would be reduced by 19.2% or 22.4 cents/kWh, which was in line with Government's estimate in early 2008 that the lowering of the permitted rate of return of the power companies should bring a double-digit reduction in Basic Tariff (not including fuel cost adjustments). However, the reduction in Basic Tariff would be partly offset by an increase of 14.9 cents/kWh in Fuel Clause Charge (FCC), i.e. from the existing level of 10.5 cents/kWh to the revised level of 25.4 cents/kWh, to cover the rising fuel cost. HEC forecasted that there would be a deficit of about $1 billion in its Fuel Clause Account by end of 2008. The average Net Tariff would hence be reduced from 127.4 cents/kWh to 119.9 cents/kWh, representing a reduction of 5.9% from its current level. HEC had also projected on average a decrease in Basic Tariff and Net Tariff per annum during the DP period.

2. SEN added that upon HEC's reduction of Basic Tariff by 19.2%, the Basic Tariff between HEC and CLP would be narrowed from 33% to 22%.

Presentation by The Hongkong Electric Company Limited

3. At the invitation of the Chairman, Mr K S TSO, Group Managing Director of HEC advised that HEC's reduction in Basic Tariff had been partly offset by rising coal prices which had increased by almost three times from early 2007 to mid 2008. He remarked that the increase in FCC reflected the actual cost of fuel and did not form part of HEC's profit. In fact, HEC had tried its best to limit the increase in FCC, and as a result, HEC would carry a deficit of about $1 billion in its Fuel Clause Account at end of 2009. Mr TSO said that while the reduction of average Net Tariff was 5.9%, the average rates of reduction for domestic and non-domestic customers were 6.4% and 5.8% respectively.

4. With the aid of power-point, Mr C T WAN, Director of Engineering (Planning & Development) of HEC introduced the company's investment plan under the revised DP, which mainly included upgrading, improvement and refurbishment works for various facilities to maintain reliability and safety of power supply and services to customers. He said that as over 83% of HEC's electricity was generated by coal vis-à-vis 33% of that of the CLP Power Hong Kong Limited (CLP), the impact of soaring coal price on HEC was much heavier. It was also notable that HEC's tariff adjustment over time was well below that of other public utilities/services. Compared with other major economies, HEC was highly rated in the reliability and affordability of its power supply.

Discussion

Tariff adjustment and sales forecast

5. Given that there was still a deficit of about $1 billion in HEC's Fuel Clause Account by end of 2009 and the impact of the financial tsunami, Mr Fred LI expressed doubts about HEC's projection for an average decrease in Basic Tariff per annum during the DP period. He pointed out that as HEC's customer profile consisted mainly of non-residential customers (70%), HEC would be particularly vulnerable to the effects of economic downturn on the market. As such, he had reservation whether HEC's local sales could grow at an average annual rate of 1.1% for 2009-2013.

6. SEN responded that HEC had already taken into account the prevailing economic situation when projecting that local sales would grow at an average annual rate of 1.1% for the DP period, which was a significant drop when compared to the corresponding figure of 3.3% for the period under the current Financial Plan. HEC would endeavour to control cost with a view to fine-tuning the Basic Tariff in the ensuing years. SEN reiterated that FCC operated independently from HEC's other operating costs and the company would gradually clear the deficit in its Fuel Clause Account by way of FCC adjustment in the DP period.

7. The Chairman enquired about the extent of the impact of the economic downturn on local electricity sales when Hong Kong was hard hit by the Severe Acute Respiratory Syndrome (SARS) in 2003. Mr C T WAN of HEC said that due to the setback caused by SARS, electricity sales in that year had dropped by 2.2%.

8. Mr Fred LI noted that although the reduction of HEC's average Net Tariff of 5.9% was greater than CLP's 3%, there still remained a significant difference in the average Basic Tariff between the two power companies by as much as 22%. Mr K S TSO and Mr C T WAN of HEC referred to a comparison of electricity billings of CLP and HEC in a supplementary power-point, and explained that the difference actually varied with customers consuming different levels of power per month. HEC's information showed that the range of difference in net tariff between the two power companies spanned from 2% to 25.8% for some 70% of domestic and commercial customers, with a difference of less than 10% for over 70% of the domestic customers.

9. Ms Emily LAU urged the Administration to continue with its efforts to further narrow the difference in the Basic Tariff between the two power companies. SEN sought members' appreciation on the different operating environments of CLP and HEC which accounted for the difference in their Basic Tariff. Nevertheless, the Administration had already strived to bring down the Basic Tariff of the two power companies under the new SCAs, and HEC's average Basic Tariff was reduced by 19.2%.

Fuel clause charge and fuel sources

10. Mr CHAN Kam-lam welcomed the tariff reduction made by HEC which was relatively high as compared to CLP's tariff reduction. It was also commendable that HEC had projected on average a decrease in Basic Tariff during the coming DP period. Noting that the coal price had been sliding down recently after the economic downturn, Mr CHAN was concerned whether HEC would initiate a corresponding FCC adjustment in the middle of 2009, which, as he understood, was practicable under the existing SCA mechanism.

11. Mr K S TSO of HEC explained that FCC adjustment was normally conducted on a yearly basis. As HEC had already procured more than 90% of coal it would require to meet the demand for the coming year, it was anticipated that there would not be a FCC adjustment for 2009 after the current adjustment exercise.

12. Noting HEC's response, Mr Fred LI was concerned that HEC might have acquired coal at a relatively high cost, despite the fact that its market price was dropping following the economic crisis. He urged HEC to exercise greater versatility in handling the coal procurement contracts in the interests of customers. Mr K S TSO of HEC informed members that HEC had already timed its coal procurement at opportune moments when the coal price was moving down, but it

could not foresee the lowest point of the market price.

13. Ms Emily LAU noted with concern that the use of coal formed 83% of HEC's fuel source portfolio, which was costly and not conducive to a cleaner environment. As HEC planned to consume more natural gas for generation starting 2010, she enquired if this would consequently lower the electricity tariff, in particular in the light of the agreement signed between the Government and the Mainland authorities on the latter's continuous supply of natural gas to Hong Kong in the coming two decades.

14. Mr K S TSO of HEC said that at present, HEC had one natural gas-fired combined gas turbine unit (L9) which was commissioned in 2006. With the completion of conversion of the GT57 unit into gas-firing capability in 2010, the use of natural gas would gradually increase to 30% of HEC's fuel sources. Given the volatility of coal prices and that the discussion with the Mainland supplier on the supply of natural gas for 2010 was still underway, HEC could not confirm at this stage about the impact of the use of more natural gas on electricity tariff.

15. Miss Tanya CHAN enquired whether the capacity of L9 and GT57 would meet HEC's target of increasing the use of natural gas to 30% of its fuel sources in the coming DP period or new unit had to be built.

16. Mr C T WAN of HEC responded that in order to meet the said target and the relevant emission caps in 2010, two natural gas-fired generating units would be required to operate on base-load. As such, various works on GT57 would have to be completed by end of 2009 to ensure that it would operate effectively and reliably in 2010.

17. SEN said that as HEC would be able to meet the 2010 emission caps without the proposed L10, the Administration had persuaded HEC to exclude the proposal from the revised DP hence deferring the construction of L10 beyond 2013.

18. Since it was a policy of the Government to encourage the use of renewable energy for power generation, Ms Emily LAU sought the way forward for the wind farm project proposed by HEC, as it was excluded from the revised DP. SEN advised that the proposed project was only at a very preliminary stage and its feasibility was still subject to further detailed studies, including Environmental Impact Assessment. Hence, the Administration considered that the project should be excluded at this stage but the company might propose a revision to the approved DP when the feasibility studies were completed.

19. Addressing members' concern about the use of cleaner fuel sources, SEN said that under the new SCAs, the permitted rate of return of the power companies was linked to their emission performance, whereby penalties and incentives would be provided for under-achievement or over-achievement of the emission caps which had been tightened. SEN introduced the long-term and short-term measures to regulate the environmental aspect of electricity supply. On short-term strategy, he referred to the "Technical Memorandum For Allocation Of Emission

Allowances In Respect of Specified Licence" recently made under section 26G of the Air Pollution Control Ordinance (Cap. 311) to allocate quantities of emission allowances for the three specified pollutants, namely sulphur dioxide, nitrogen oxides and respirable suspended particulates, to the power plants in Hong Kong for the year 2010 and beyond. As for long-term measure, the two power companies would be encouraged to increase the use of natural gas while reducing the reliance on coal for power generation.

Capital projects and permitted rate of return

20. Mr Ronny TONG expressed concern that in the absence of the details of CAPEX under HEC's revised DP, it was difficult for members to assess whether the level of CAPEX could be further brought down, as it was closely related to basic tariff adjustment. For example, he considered the proposed investment of $1.7 billion for customer and corporate services development too high to be justified, in particular when the projected local sales for 2009-2013 would only grow at an average annual rate of 1.1%. Mr Fred LI shared the same concern.

21. Mr C T WAN of HEC remarked that HEC's CAPEX of $12.3 billion over the next five years was in real terms lower than its CAPEX of $11.9 billion under the current 2004-2008 Financial Plan taking into account inflation and commodity price increases. He further advised that the CAPEX in respect of customer and corporate services development included capital expenditure on information system development, metering, replacement of motor vehicles and building renovation, the details of which had been examined and considered reasonable by the Administration and Nexant.

22. SEN advised that under the existing regulatory framework, the power companies were required to submit their respective DPs for the Administration's consideration. Due to the commercially sensitive nature of the information in the DP, the Administration could not disclose the details but would serve as a gatekeeper in assessing DPs and related CAPEX in the interests of the consumers. He assured members that the Administration had, in conjunction with Nexant, critically reviewed the need, timing and budget of the capital projects proposed by HEC. While there was some increase in the CAPEX for customer and corporate services development, the overall CAPEX was in real terms 10% lower than the CAPEX of the current Financial Plan.

23. Mr Albert CHAN took the view that being public utilities, the two power companies were actually monopolizing the electricity market and making huge profits at the expense of the general public. He was pleased to note that the Administration had disapproved the two projects of L10 and off-shore wind farm in HEC's original DP as the investment on them would enable HEC to yield a higher return. Mr CHAN sought information on the estimated level of profits to be brought to the power company during the DP period. He expressed grave concern that the two power companies had been using "commercial sensitivity" as an excuse to refuse disclosing information relating to their profits. He also urged the Administration to introduce competition to the electricity market as soon as

possible with a view to providing more room for downward adjustment of electricity tariffs.

24. SEN stressed that on the basis of the new SCAs, the maximum level of profits allowable would be capped at the permitted rate of return of 9.99% on ANFA. While information on the actual profits of HEC for the past years was available in the company's annual reports, he welcomed HEC's initiation in disclosing the forecast profits for the coming DP period.

25. Ms Emily LAU opined that HEC would after all strive to yield the greatest profit permissible under the cap. SEN explained that should HEC's profits exceed the ceiling, the profits in excess would be retained in the Tariff Stabilization Fund (TSF). In its negotiation with HEC, the Administration had persuaded HEC to draw down its TSF from the estimated $172 million by end 2008 to about $80 million by end 2009 and keep it at around the same level in the ensuing years of the DP period.

26. Ms Starry LEE enquired about the proportion of CAPEX spent on construction of new generation system for HEC. The Deputy Secretary for the Environment (DSEN) said that the Administration considered HEC's existing generation system adequate to meet the load demand before 2017, thus there was no need to build new generation units during the DP period. The revised CAPEX of $4.4 billion for generation system would be expended mainly for retrofitting existing generating units, refurbishing aged equipments and improving power plant facilities. As for the $6.2 billion CAPEX earmarked for transmission and distribution system, apart from improvement and reinforcement of the existing system, there would be construction of new substations and additional circuits to meet new demand as required for new transport infrastructures, such as the West Island Line and South Island Line. SEN assured members that the Administration would uphold its gate-keeping role to ensure that the capital investment projects proposed by HEC were reasonable and necessary.

Excess generating capacity

27. Ms Starry LEE was concerned about the treatment of HEC's excess generating capacity which was expected to rise as electricity demand would decrease in a slackening economy. In her view, HEC should make constructive use of the excess generating capacity with a view to alleviating the pressure on tariff increase. Miss Tanya CHAN shared the concern and considered that, given the mechanism of the permitted rate of return, there was a lack of incentives for HEC to put the excess generating capacity to more cost-effective utilization.

28. SEN informed members that in order to meet the sudden surge in electricity demand at particular moments, the level of generating capacity available had to be higher than the demand under the load and sales forecast, and the portion in question was the reserved capacity. The level of HEC's reserved capacity in the DP period was considered acceptable.

Energy consultant

29. Mrs Regina IP was concerned about the independence of Nexant, the energy consultant engaged by the Administration, in giving an objective assessment of HEC's DP, especially whether there might be possible conflict of interests of Nexant in relation to the power companies.

30. DSEN said that the engagement of energy consultant to review DP had been a practice for more than 20 years since the regulation of electricity supply through SCAs. A tendering procedure was conducted every five years by the Electrical and Mechanical Services Department to select the service provider which, upon appointment, was required to declare that it was not associated with the power companies in any form of interests. No cases pertaining to conflict of interests had been identified so far. He also informed members that Nexant was an American firm, which was not re-appointed for the next contract period.

31. SEN advised that the role of the energy consultant was to assist, and in no way substitute, the Administration in examining the DP of the power companies. The consultant would render their advice especially on professional and technical matters, while the Environment Bureau would review the financial and other aspects of DP by its own expertise.

Way forward

32. Summing up, the Chairman reiterated members' concern about HEC's relatively high reliance on coal for power generation, and their urge for HEC to increase the use of natural gas in generating power, with a view to building a cleaner environment. As coal prices fluctuated drastically, HEC was also requested to target its coal procurement at a lower market price so as to relieve the pressure on FCC adjustment and subsequently tariff increase.

II Progress update on Hong Kong Disneyland

(LC Paper No. CB(1)372/08-09(06)	—	Administration's paper on Hong Kong Disneyland
LC Paper No. CB(1)372/08-09(07)	—	Paper on Hong Kong Disneyland prepared by the Legislative Council Secretariat (Updated background brief))

Briefing by the Administration

33. The Secretary for Commerce and Economic Development (SCED) updated members on the operation of the Hong Kong Disneyland (HKD) in the past year (i.e. from October 2007 to September 2008) as set out in the Administration's paper. She highlighted that there had been improvements in HKD's operations in the past

year: the attendance had grown by 8% year-on-year; overall satisfaction with the theme park was maintained at over 90%, and the two hotels at the HKD Resort also recorded an 8% growth in occupancy from the previous year. That said, the Administration believed that there was still room for improvement in the park's operations. Against the backdrop of a challenging economic environment, the Administration hoped that the park's management company would continue to implement cost containment measures and special promotions to sustain the momentum of the business. SCED also advised members that, in view of the small size of the park and to increase the attractiveness of the park, the Administration agreed to the need to explore the expansion of HKD. The Government and The Walt Disney Company (WDC) were in active discussion on an expansion plan for HKD which might involve a capital realignment of HKD's owner (i.e. Hongkong International Theme Parks Limited (HKITP) of which the Government and WDC were the shareholders). The Government would take into account a number of factors when considering the expansion proposal, and would keep members informed of the progress and outcome of the discussion in due course.

Presentation by Hong Kong Disneyland

34. At the invitation of the Chairman, Mr Andrew KAM, Managing Director of HKD highlighted that although the changing economic environment would pose an impact on the park's operation, the management company and WDC were optimistic about the business potential for HKD, and would endeavour to build HKD as a Hong Kong brand and a premier tourist destination especially in the Asian region. He elaborated on the operation of HKD, highlighting the following: -

(a) HKD's attendance had sustained stable growth in 2007-2008. Such growth was remarkable given the unusual weather conditions that hit the region throughout the year. There was also a notable double-digit growth since October 2008 over the previous year. The cumulative number of visitors to HKD since its opening in September 2005 had just exceeded 15 million. There were also 16 and 21 percentage points increases since HKD's opening in respect of visitors' overall satisfaction and their intention to re-visit HKD respectively;

(b) The management company had been actively strengthening its partnership with the trade to jointly develop markets in Hong Kong, the Mainland and overseas. It had been enhancing sales and marketing efforts in the Mainland by expanding HKD's sales teams in Shanghai, Beijing and Guangzhou. The company was also building relationship with more trade partners in the Mainland, with a view to increasing coverage to more Mainland cities under the Individual Visits Scheme (IVS);

(c) Collaboration with the local travel trade was enhanced, with the number of travel agent partners leapt by 41% since the commencement of HKD's operation. The management company had plans to strengthen cooperation with other Hong Kong attractions, especially its industry partners in Lantau Island, such as Ngong Ping 360, the Hong Kong International Airport and Asia World Expo;

(d) With ninety percent of its staff employed locally, HKD had also gradually localized the Resort's management in the past three years. Besides, HKD attached much importance to training and grooming local talents. To foster equal job opportunities, it had also hired over 300 persons with disabilities (PwDs) in the past three years, and a Disabilities Apprenticeship Programme was in place to assist PwDs in adapting to working life;

(e) To deepen HKD's linkage with the local community, the management company had engaged in a range of community activities mostly for children and youths, such as the HK$1 million Disney Children's Fund launched in 2008, the Disney Children's Programmes in Hospitals, and a number of green initiatives. It had also given out complimentary tickets to underprivileged families in the community. Besides, HKD had contributed some 20 000 hours of community service through its VoluntEARS programme since opening of the park; and

(f) With a view to improving the financial performance of HKITP, WDC loaned $3.26 billion (consisting of a term loan and revolving credit facility) to HKITP, in order to repay the company's commercial loan.

35. Mr Andrew KAM of HKD took the opportunity to inform members that in view of the difficulties faced by the underprivileged amidst the economic downturn, HKD intended to give out 20 000 HKD complimentary tickets to underprivileged families in the community. He invited members to refer suitable families or non-Government organizations (NGOs) they identified to HKD for arrangements.

Discussion

Park operation

36. Mr Fred LI expressed concern that the visitor figure of HKD in the past three years had fallen short of the original projection (i.e. 5.6 million visitors for the first year with steady rise in subsequent years). He doubted the 8% year-on-year growth in HKD's attendance for 2007-2008 might not reflect the real situation as the visitor figure might have included Annual Pass and complimentary ticket holders. He considered that for a more realistic evaluation of HKD's operation, the park management should provide more information on the actual number of tickets sold for the year. Mr Andrew KAM of HKD said that the park's revenue

had increased in proportion to the growth in the park's attendance.

37. Mr Fred LI asked about the details of the arrangements for the $3.26 billion loan from WDC, such as the interest rate and the period of repayment. Mr Andrew KAM of HKD said that WDC offered more favourable terms and interest rate for the loan, and the loan enabled HKITP to repay its commercial loan. In response to Mr LI's further enquiry, Mr KAM clarified that any future injection of funds by WDC for HKD's expansion plan would be on top of the said loan.

38. Mr CHAN Kam-lam considered HKD's operation in the past few years unsatisfactory, which was partly attributed to the park's inflexible ticketing strategy. He was pleased to learn that the park management had made some improvements, such as launching the Annual Pass programme. He considered that the park management should be more proactive in marketing and promotion, and should enhance its collaboration with trade partners. For example, HKD should leverage on the pilot scheme for Mainland-authorized Hong Kong travel agents to organize group tours to Hong Kong for non-Guangdong residents in Shenzhen and pay more efforts to promote HKD among these prospective visitors.

39. Mr WONG Ting-kwong shared the view that the park management should exercise greater flexibility in marketing and ticketing arrangements, and make reference to the experience of Ocean Park which collaborated with trade/labour unions in increasing its sales outlets. He suggested that the park management should consider capturing new or emerging source markets, such as Vietnam and India.

40. Mr Andrew KAM of HKD highlighted HKD's three-pronged marketing strategy. On the Mainland market, apart from expansion of sales teams in the Mainland cities, surveys were regularly conducted to gauge the views and preferences of potential Mainland tourists. The management company had also enhanced the penetration into the local market by adopting a more flexible and creative marketing strategy that blended in with the tastes of local people. Efforts were made to open up new source markets in Southeast Asia and enhance awareness of HKD in those areas. He outlined HKITP's development in MICE (Meetings, Incentives, Conventions and Exhibitions) as a target area of business growth, and cited a few successful cases whereby HKD was instrumental to the companies' decision to hold their MICE events in Hong Kong. In taking forward the marketing initiatives, the park management had worked jointly with the Hong Kong Tourism Board (HKTB), and relied increasingly on electronic marketing via the park's official website.

41. The Chairman suggested the park management to liaise with the trade unions and associations in opening up more sales opportunities for MICE programmes. Mr Andrew KAM of HKD noted the suggestion and said that there was currently a team of about ten staff dedicated for MICE operation in HKD, which would maintain close contacts with trade unions and associations. HKD had also collaborated with HKTB in organizing MICE-related promotion campaigns and road shows overseas. SCED remarked that the Administration had provided

funding to HKTB to set up a dedicated office "Meetings and Exhibitions Hong Kong" (MEHK). The MEHK Office would partner with local and overseas networks to promote Hong Kong as an international city and to attract large-scale MICE events to Hong Kong.

42. Mrs Regina IP declared that she held stocks of WDC. Noting that Shanghai was planning to build its Disneyland resort, she asked about HKD's marketing strategy in the face of the competition from the new theme park in the Mainland. The Chairman and Ms Emily LAU expressed the same concern and sought further details of WDC's plan in Shanghai.

43. Mr Andrew KAM of HKD responded that he was not in a position to advise on WDC's investment plan in Shanghai. His main responsibility was to oversee the growth of HKD. He said that the management of HKD would continue its three-pronged marketing strategy to maintain HKD's competitiveness. In response to Mrs IP's further enquiry, Mr KAM explained that in terms of facilities, the two hotels at the HKD Resort were comparable to a four-star hotel and a five-star hotel respectively among local counterparts.

44. Mr IP Wai-ming expressed concern about the drop in percentage of visitors from the Mainland and international segments, as shown in paragraph 4 of Annex I to the Administration's paper. Mr Andrew KAM of HKD explained that the changes in visitor percentages from different markets reflected a shift in the guest mix but the overall number of guests had been increasing. He said that park and hotel guests by place of origin represented a mix of local, Mainland and Southeast Asia visitors, each roughly sharing about one-third of the guest portfolio, with a greater number of visitation by local guests and families during the weekends.

45. While noting that the park management had targeted at the local young adults in the marketing strategy, Miss Tanya CHAN considered that HKD should also boost family visitation by implementing annual pass programme specifically for families. Mr Andrew KAM of HKD took note of the suggestion. He said that the park management would continue to drive attendance by introducing more varieties under the annual pass programme.

46. In reply to Miss Tanya CHAN, SCED said that on the basis of surveys conducted by the management company, the young adult market was identified as a potential area of growth for HKD. There was also an increase in the number of visitors to HKD from the Mainland under the IVS. The trend was expected to continue along with further liberalization and facilitation tourism measures launched by the Mainland authorities. For instance, the pilot scheme for Mainland-authorized Hong Kong travel agents to organize group tours for non-Guangdong residents in Shenzhen to visit Hong Kong had taken effect from 15 December 2008. The itinerary of these groups would include HKD and other tourist attractions, and bring additional Mainland tourists to Hong Kong.

47. Mr IP Wai-ming said that he had visited HKD in the first year of its operation, and there was a lack of appeal for him to re-visit the park. He

considered that there was room for improvement in the guest entry arrangements, especially the search of personal property at the park's entrance. He criticized that the measure of prohibiting guests from bringing food and drinks into HKD was only to protect and nurture the business of the eateries within the park. This was highly undesirable to visitors from underprivileged or less well-off families, given the relatively expensive food services at the park. As the park management would distribute free tickets to the needy, such initiative should be augmented by appropriate entry and reception measures.

48. Mr Andrew KAM of HKD advised that the park management had made significant improvements in entry arrangements. The search measure was implemented for security reason, and not to prohibit guests from carrying food and drinks into HKD. To sustain HKD's appeal to visitors, a number of new attractions had been launched progressively since the park's opening, including the latest "It's a small world" and special events at festive seasons. For instance, the recent Haunted Halloween special event had registered a double-digit growth in visitors.

49. Mr Albert CHAN recalled the incidents in the first year of HKD's operation which had aroused negative sentiment against the park among locals and Mainland tourists. He stressed the importance for HKD to revamp the park's image through staff localization which hopefully could dilute its pan-American characteristics. Concerning the distribution of the 20 000 complimentary tickets by HKD, Mr CHAN advised that the park management should liaise directly with the NGOs for taking the initiative forward. He cautioned that it would not be appropriate to distribute the said tickets to the needy via the Legislative Council Members or their political parties.

50. Mr Paul TSE commended that the senior park management had made a number of improvements and enhanced flexibility to the park's operation, showing a gradual attachment to local flavour. It was observed that HKD had moved to build closer rapport with the travel trade to cater for their needs. He also relayed the compliment of travel agents on HKD's well-thought facilities for PwDs. As the Board of Directors of HKITP comprised five Government directors, four Disney directors and two independent non-executive directors, Mr TSE was concerned that the Government directors might be too busy to attend to the business of HKD. He suggested that the park management should make reference to the Board of Ocean Park which comprised members of the tourism sector. He asked whether the two existing independent non-executive directors of HKD belonged to the travel trade.

51. Mr Andrew KAM of HKD informed members that one of the independent non-executive directors was Mr Philip CHEN, the Deputy Chairman of Cathay Pacific Airways, who was very familiar with the tourism industry in Hong Kong. The park management would continue to strengthen the ties with travel agents so as to listen and respond more promptly to their views.

Expansion for Hong Kong Disneyland

52. Mr Fred LI criticized that the park management had all along been reluctant to disclose the financial performance of HKD. Without such information, it would be difficult for members to consider the proposed expansion plan, especially with regard to the injection of Government funds. He urged the Administration to take forward the expansion plan cautiously to ensure cost-effective use of public resources.

53. Mr Albert CHAN shared similar concern and suggested that the Administration should take the opportunity of the expansion project and capital realignment of HKITP to negotiate more equitable terms for the Government.

54. SCED advised that the Administration took a generally positive stance on WDC's proposed expansion plan, in view of the small size of the park and limitations to offering visitors a fuller park experience. The Administration also noted that jobs could be created through the expansion project to help boost the economy. The Administration would take into account a number of factors when considering such plans, including the economic benefits to Hong Kong, impact of new tourist attractions in the region on HKD's attendance, financial viability of the expansion project, and the level of the Government's further investment in HKD, especially the implication of capital realignment. At this stage, the Administration had not taken a decision on WDC's proposed expansion plan for HKD.

55. Ms Emily LAU recalled that according to the Administration's assessment in 1999, HKD would generate substantial economic benefits for Hong Kong's economy, estimated to reach $148 billion over 40 years. She doubted how far this target had been achieved. She also questioned whether further public monies should be injected into this project in view of the uncertainty of investment return and the implications of capital realignment should WDC inject more funds than the Government into the park. It seemed that neither the Government nor the park management had the necessary expertise in running the park.

56. Ms Starry LEE asked about the park management's estimation on when the Government would begin to yield return from its investment in HKD.

57. Mr Paul TSE considered that HKD had already brought about intangible benefits to local tourism by attracting more people to Hong Kong and spurring consumption in the retail sector. He said that HKD's expansion plan had the support of the tourism sector.

58. SCED explained that HKD was a long-term project and the economic benefits it would bring to Hong Kong should be assessed in that context. Given that the park had just completed its third year of operation, it would be premature to make a judgement on the investment return at this stage. She also drew members' attention to the intangible economic benefits brought by the park, such as building up Hong Kong as an international city and an ideal destination for leisure, and creating jobs for talents in the entertainment and performing arts industries. As

regards the way forward, priority should be given to adding value to the park's current assets, and boosting patronage and in-park spending in order to achieve the tangible investment return in the long run.

59. Mr Andrew KAM of HKD assured members that the park management would endeavour to realize the investment return for HKD as early as possible within his tenure.

60. Mr WONG Ting-kwong said that the two local theme parks (i.e. HKD and Ocean Park) had played an important role in boosting tourism in Hong Kong, having regard to the few heritage and natural scenic attractions in the territory. He agreed that consideration should be given to expanding HKD in order to boost patronage, lest the park would lose its competitiveness and become another "white elephant".

Staffing proposal

61. With reference to the park's lower-than-expected attendance, Mr Fred LI expressed concern about the Administration's further investment into the HKD project, including the creation of a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post in the Tourism Commission (TC) to support the Government's discussion with WDC on the proposed expansion for HKD.

62. SCED explained that in August 2008, a six-month supernumerary post was created in TC under delegated authority to support the Government's discussions with WDC on the different options to address the maturity of HKITP's commercial loan, HKD's expansion plan, and possible capital realignment of HKITP. It was expected that the discussion would not be concluded by the time when the existing supernumerary post lapsed in February 2009. Hence, there was a need to create a supernumerary AOSGC post for a further nine-month period. She sought members' support for the proposal.

63. Mr CHAN Kam-lam expressed support for the staffing proposal, which was to continue the work of an existing supernumerary AOSGC post.

64. Mr Paul TSE also expressed support for the proposal of creating a supernumerary AOSGC post for nine months.

65. Ms Starry LEE enquired whether the post holder could complete the specified tasks within nine months.

66. SCED responded that the proposed duration represented a broad assessment of the time required to conclude Government's discussion with WDC and to coordinate immediate follow-up work. The Administration did not set a timetable for the concession of the discussion. If the Administration considered it necessary to extend the proposed post after review, it would consult this Panel before the end of the 2008-2009 session.

Action

67. The Chairman concluded that members supported the staffing proposal in principle.

III Any other business

68. There being no other business, the meeting ended at 6:45 pm.

Council Business Division 1
Legislative Council Secretariat
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