立法會
Legislative Council

LC Paper No. CB(1)2710/08-09
(These minutes have been seen by the Administration)

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Panel on Economic Development

Minutes of special meeting
held on Saturday, 4 July 2009, at 8:30 am
in Conference Room A 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, SBS, 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 Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS, JP Hon CHIM Pui-chung Hon Paul CHAN Mo-po, MH, JP Hon Tanya CHAN Hon IP Wai-ming, MH Hon Paul TSE Wai-chun Dr Hon Samson TAM Wai-ho, JP
Member attending	:	Dr Hon PAN Pey-chyou
Members absent	:	Dr Hon David LI Kwok-po, GBM, GBS, JP Hon Abraham SHEK Lai-him, SBS, JP Hon Ronny TONG Ka-wah, SC Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Public officers attending	:	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, JP
Commissioner for Tourism

Mr Clement LEUNG, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)2

Mrs Helen CHAN, JP
Government Economist
'
Ms Ellen CHOY
Assistant Commissioner for Tourism (5)

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

Staff in attendance : Mrs Constance LI
Assistant Secretary General 1

Ms Angel SHEK
Senior Council Secretary (1)1

Ms Debbie SIU
Legislative Assistant (1)9

Action

I Proposed expansion of Hong Kong Disneyland

(LC Paper No. CB(1)2144/08-09(01) - List of follow-up actions arising from the discussion at the special meeting on 30 June 2009 prepared by the Legislative Council Secretariat

LC Paper No. CB(1)2144/08-09(02) - Administration's response to LC Paper No. CB(1)2144/08-09(01)

LC Paper No. FS28/08-09 - Fact sheet on Financial arrangements relating to the construction and expansion of Hong Kong Disneyland prepared by the Legislative Council Secretariat

LC Paper No. FCR(1999-2000)48	-	Administration's paper for the Finance Committee meeting on 26 November 1999
LC Paper No. CB(1)2144/08-09(03)	-	Extract of minutes of Finance Committee meeting on 26 November 1999
LC Paper No. CB(1)2090/08-09(01)	-	Administration's paper on "Update on proposed expansion of Hong Kong Disneyland"
LC Paper No. CB(1)2090/08-09(02)	-	Paper on proposed expansion of Hong Kong Disneyland prepared by the Legislative Council Secretariat (Background brief))

Briefing by the Administration

At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) highlighted the Administration's response to the concerns raised by members on the proposed expansion of Hong Kong Disneyland (HKD) at the meeting on 30 June 2009, as set out in the Administration's paper CB(1)2144/08-09(02).

Discussion

Information on financial performance of Hongkong International Theme Parks Limited (HKITP)

2. Mr Vincent FANG expressed support in principle for the proposed conversion of Government's loan to equity so as to sustain the operation of HKD. However, he doubted why the financial performance of HKITP had to be kept confidential and whether the same arrangement also applied to other Disney theme parks. In his view, the management of HKITP should face up to the financial loss incurred in the HKD project and improve the management of the park in future. Mr CHAN Kam-lam expressed concern that the confidentiality obligation would hinder discussion of the proposed financial arrangements.

3. Mr Fred LI said that it was unreasonable for the Administration to request members to give support to the proposal without providing information on the financial performance of the joint-venture in the past three years. He opined that the Government should have sought the consent from TWDC to disclose the information in question. Mr Albert CHAN expressed similar concern. He requested the Administration to provide information on the main operating and financial results of HKITP in the past three years, including park attendance and the key indicators of financial performance, i.e. income, expenditure and assets, as well

as investment gains/losses made so far for the HKD project.

4. While supporting the proposal, Mr Paul TSE opined that the Government could take the opportunity to negotiate with TWDC for a variation of the existing contract provisions such that the financial information for the past three years could be made available to Members and the public. He stressed that it was an obligation on the part of the Government to account for the use of public monies by disclosing the financial results of HKITP, especially if the information had been made available by TWDC to the Government. Mr TSE requested the Government to adopt a stronger stance in negotiating with TWDC and press on the disclosure requirement.

5. Ms Starry LEE expressed support for the expansion project as HKD was currently small in size and the number of attractions was limited. She shared other members' concerns that there was inadequate information for consideration of the expansion project, since financial information was usually included in the securities prospectus.

6. SCED stressed that both the Government and TWDC were bound by the confidentiality provision under the current agreement not to disclose any commercially sensitive information including the gain or loss from the operation of HKD so far. This notwithstanding, the Government and TWDC had agreed to disclose the park's annual attendance and key indicators of its financial performance from the operation year of 2008-2009 onward, which was a significant improvement to enhance the transparency of HKD operation. The key financial indicators included revenues, costs and expenses, and net profit/loss. SCED hoped members would understand that the confidentiality obligation under the current agreement was still in force. She added that as Tokyo Disneyland and Disneyland Paris were both listed companies, they were required to disclose their financial performance in annual reports.

7. Mr Paul CHAN opined that information on the financial indicators should include the sub-items of income and expenditure, fixed assets, depreciation, and amortization, as these were essential in calculating the management fee. He also requested disclosing the amount of royalty payment, related party transactions, and the accounting principles to be adopted. The Deputy Secretary for Financial Services and the Treasury (Treasury)2 (DS(Tsy)2/FSTB) said that the Administration would convey members' concerns regarding disclosure of financial information to TWDC. He also advised that HKITP's accounts were prepared based on generally accepted accounting principles in Hong Kong and were subject to audit. Ms Starry LEE remarked that as there were different accounting principles that complied with the practices in Hong Kong, more specific details should be disclosed for members' reference.

8. Ms Starry LEE suggested a closed meeting be arranged for the Administration to disclose the confidential information to the Panel. SCED said that the arrangement would require the consent of TWDC as the Legislative Council (LegCo) was not a party to the agreement between the Government and

TWDC in legal terms.

9. Mr Albert CHAN criticized the Administration for not agreeing to disclose the information and this was total disrespect of the interests of the public. He strongly disagreed that LegCo was a third party to the agreement between the Government and TWDC as LegCo was responsible for approving and monitoring public expenditures. He requested the Legal Service Division of LegCo Secretariat to provide legal advice in this regard.

LSD

(*Post-meeting note*: The paper provided by LSD was circulated on 9 July 2009 vide LS105/08-09)

10. Mr Paul TSE expressed reservation about the view that LegCo should be regarded as a third party in taking forward the proposed expansion of HKD. SCED responded that the Administration fully respected the rights and duties of LegCo in scrutinizing the financial proposal. She clarified that her remark on LegCo being a third party was only referring to the issue of disclosure of commercially sensitive information under the current agreement with TWDC to which LegCo was not a signatory.

11. In response to Ms Emily LAU's enquiry, SCED said that information on the Government investment in the HKD project had been provided in the Administration's paper CB(1)2144/08-09(02). The differences between the figures provided by the Government and R&LSD (FS28/08-09) arose only because actual expenditures and approved provisions were referenced in the two sets of figures respectively. The Chairman requested the Administration to provide explanation on the differences in writing.

Financial arrangements for HKD expansion

12. Mr Vincent FANG expressed support for the proposed conversion of Government loan to equity for the expansion project. In his view, it was not financially healthy for HKITP to rely on huge loans for further development, and the current loan-to-equity conversion appeared to be the best option. He said that it would be constructive to retain HKD as a tourism infrastructure and take forward the HKD expansion instead of closing down the park.

13. Ms Starry LEE considered the conversion of Government loan to equity a relatively more acceptable option to finance the project, as the chance for HKITP to repay the Government loan looked gloomy.

14. Mr WONG Ting-kwong expressed support for the proposal as the expansion project would enhance the appeal of HKD and enable it to withstand the competition in the region. Mr WONG enquired about the timeframe for HKITP to make investment return and whether dividends would be paid according to the proportion of shares held by TWDC and the Government. SCED said that the ordinary shares held by both parties were of the same unit value and subject to the same mechanism of dividend payment. The Government had to take into account

quality of service and public affordability, rather than concentrating on maximizing profit.

15. Dr PAN Pey-chyou expressed grave concern that under the financial arrangements, the Government's shareholdings in HKITP would be reduced to 52% although the Government would inject more capital by converting some $5.89 billion Government loan to equity, as compared to $3.49 billion new capital injected by TWDC. SCED explained that apart from the new capital injection, TWDC would also convert its outstanding loan of about $2.76 billion to equity, making a total of some $6.25 billion. Added to the initial contribution of $3.25 billion and $2.45 billion by the Government and TWDC respectively for Phase I project of HKD, the injection of new capital and conversion of Government/TWDC loans under the proposed financing arrangements would enlarge the total capital share such that the ratio of Government to TWDC shareholdings would become 52%:48%.

16. Ms Emily LAU remarked that the ratio of shareholdings held by Government and TWDC (i.e. 52%:48%) after the loan-to-equity conversion remained inequitable to the Government, considering the huge initial investment made by the Government in HKD. She noted that while the $4 billion subordinated shares would be converted to ordinary shares in a gradual manner, the conversion could only begin after five years of HKD's operation. The permitted conversion ceiling would thereafter rise by 5% per annum cumulatively, and full conversion of the subordinated shares within 25 years after park opening would only be possible if the park's business performance could consistently exceed the projections at the time. Besides, there would be an annual cap of 10% on conversion to prevent excessive equity dilution in any one year. As payment of dividends was not applicable to subordinated shares, Ms LAU criticized that the Administration had imposed too many constraints on the conversion process. She enquired whether the Administration had attempted to discuss with TWDC to relax the criteria.

17. SCED said that the financial arrangements including the conversion of subordinated shares had been approved by the Finance Committee (FC) in 1999. She appealed to members to view HKD as a long-term investment, and the criteria for the conversion of subordinated shares to ordinary shares would ensure that the benefits of ordinary shares held by other investors would not be diluted substantially within a short period of time.

18. Mr Albert CHAN said that it was unwise for the Administration to make further investment in HKD given the inequitable terms in both the existing and new agreements. He said that the interest of Hong Kong people had been sacrificed under the new arrangement and there was little information for members to consider whether the proposed financial arrangements were reasonable. He called upon members to exercise due diligence in monitoring public expenditures and cautiously consider the expansion plan. He criticized the Administration for shifting the responsibility to LegCo in referring to FC's approval in 1999 in relation to the contractual arrangements. He pointed out that of the 37 FC Members who

supported the financial proposal for the development of HKD in 1999, only nine of them were still LegCo Members but none of them were present at this meeting. Mr CHAN expressed dissatisfaction that the Administration had been disclosing information selectively to members. He remarked that although the expansion plan involved no new capital injection from the Government, the conversion of Government loan to equity was in effect making up part of the financial loss of HKITP. As such, he strongly objected to the submission of the financial proposal to FC. He requested the Research and Library Services Division (R&LSD) of LegCo Secretariat to provide information on the comparison of the financial arrangements relating to HKD and the Disney theme parks in Paris and Tokyo (including associated hotels in these places).

(*Post-meeting note*: The fact sheet provided by R&LSD was circulated on 9 July 2009 vide FS 30/08-09.)

19. Expressing his objection to the proposal, Mr CHIM Pui-chung criticized the Government for using the FC's approval of the development of HKD in 1999 as a defence for the inequitable financial arrangements for the HKD project. He strongly urged the Administration to admit the HKD project as a failure and present a true picture of the financial performance of HKITP to enable members to make an informed decision on the expansion project. In this connection, he requested the Administration to provide information on the projected income and expenditure as well as investment gains/losses in the operation of the expanded HKD for members' consideration.

20. Mr Fred LI highlighted the risks associated with the expansion project, pointing out that the average annual attendance figure of the park had not yet reached 5.2 million as estimated under the "base case" scenario developed in 1999, and the original forecast of economic benefits of $148 billion over 40 years was now revised to be in the range of $64.7 billion to $117.3 billion by the Government and TWDC. Mr LI enquired whether the Government would consider withdrawing its investment from the joint venture and selling its shares of HKITP to TWDC.

21. SCED said that both TWDC and the Government were confident about the prospect of HKITP making investment return in future, and it was on this premise that TWDC agreed to contribute the necessary new capital for the construction of the new attractions. She believed that in the absence of new capital injection to realize the expansion project, the development of the park and its potential to achieve the target investment return in the long run would be limited. In view of the financial performance of HKITP thus far, SCED said that it would not be an attractive option to TWDC to acquire the Government's shares in HKITP at this stage.

22. Mr Paul TSE said that the travel sector generally supported the proposed expansion plan, in view of the economic benefits the park could bring to Hong Kong. Although the natural disasters in the Mainland in 2008 had affected HKD's patronage, he was pleased to note that HKD had resulted in additional length of

stay of 0.7 day for base tourists. Nevertheless, he requested the Administration to exercise caution in the use of public monies to take forward the expansion project.

23. SCED reiterated that when the proposal to develop HKD was discussed in 1999, the Administration essentially looked upon the park as a tourism infrastructure and its economic benefits should be taken into account in assessing the cost-effectiveness of the park operation. In view of the economic benefits that HKD had brought to Hong Kong in the past few years, she regarded HKD a success although the financial performance of HKITP in the initial years was not satisfactory.

24. Mr Paul CHAN agreed that both the financial results and economic benefits of HKD should be taken into account in deciding whether to take forward the expansion project. He said that since this was a joint venture with TWDC, HKITP had to operate in a commercially sustainable manner. As there was little information on HKITP's past financial results and a Disney theme park had been proposed for Shanghai, Mr CHAN said that it would be difficult for members to ascertain whether the proposed financial arrangements would genuinely safeguard public interests. SCED reiterated the need to take forward the expansion project having regard to the need to improve the financial performance of HKITP, and the economic benefits HKD had brought and would continue to reap for Hong Kong. Besides, the expansion project was considered by TWDC and the Government as financially viable. In reply to Mr Paul CHAN, DS(Tsy)2/FSTB advised that the new agreement with TWDC would not oblige the Government to make loans to HKITP in case the company encountered financial difficulties in future.

25. Ms Emily LAU enquired whether the Administration had discussed the Shanghai Disneyland project with TWDC during the negotiation. She considered it serious negligence on the part of Government if it had not brought up the issue in the negotiation and requested TWDC to defer the Shanghai Disneyland project.

26. Dr PAN Pei-chyou expressed strong dissatisfaction about the outcome of negotiation. He said that circumstances had changed since 1999 when Hong Kong was hard hit by the financial crisis and was then in a relatively weaker position to bargain with TWDC. This time, the Administration should ride on the potential market of the Mainland and negotiate more equitable terms with TWDC. As the negotiations between TWDC and Shanghai authority were still in progress, he urged the Administration to take this opportunity to pressurize TWDC and make a better deal for Hong Kong.

27. SCED responded that the Administration had made the best efforts to negotiate in the best interests of and secure the best terms for Hong Kong under the new agreement. As the focus of discussion with TWDC was on the HKD expansion, the Shanghai Disneyland project had not been covered in detail during the discussion. Nevertheless, the Administration was fully aware that the possible opening of a Disney theme park in Shanghai could impact on the performance of HKD, and had conveyed strong concerns to TWDC about the Shanghai project during the discussion. She sought members' understanding that the

Administration had protected the interest of HKD by ensuring that the key storylines and technological elements of these new themed areas would not be substantially repeated in any other Disney theme park within five years from their opening.

28. Mr Albert HO enquired about the consequences, such as the chance that HKITP could repay the Government loan in future, should the Government decide not to make further investment in the park. He also asked if TWDC had made any provision for security in connection with the repayment of the Government loan. SCED pointed out that HKITP was a joint-venture set up by the Government and TWDC. As both parties had made heavy investment in HKD, it was an aim of the proposed financial arrangements to deleverage HKITP with a view to improving the financial position of HKITP, which would in turn improve its ability to repay the remaining loan. As for the provision of security to guarantee loan repayment by HKITP, SCED said that TWDC had not made such a commitment. In regard to Mr HO's enquiry about alternatives to the proposed financial arrangements, SCED said that the in-principle agreement between the Government and TWDC in respect of HKD expansion and the related financial arrangements had been reached after two years of discussions. To avoid uncertainties, it would not be advisable to re-open the discussion at this stage.

Attendance projection and economic benefits

29. SCED remarked that HKD in its past three operation years had brought some $10.3 billion of value added to the Hong Kong economy, and raised the Gross Domestic Product (GDP) by an average of 0.2% each year. Besides, HKD had created more than 10 000 jobs in terms of man-years in the economy in each of the past three years. Under the projections made by TWDC ("Case 1A" and "Case 1B") and Government ("Case 2") (Administration's paper CB(1)2090/08-09(01)) over a 40-year operation period (i.e. until 2044-2045), the economic benefits to be brought by HKD were estimated to be between $64.7 billion ("Case 2") and 117.3 billion ("Case 1A").

30. Ms Emily LAU noted from paragraph 24 of the Administration's paper (CB(1)2090/08-09(01)) that the estimated return on Government's existing equity and new equity after loan conversion was about 5% if "Case 1A" was achieved, whereas the Government's investment return would be about breakeven under the more conservative scenario of "Case 1B". She enquired about the assessment of Government's investment return for "Case 2". DS(Tsy)2/FSTB said that the Administration had worked out the estimated return on Government's equity under "Case 1A" and "Case 1B" based on the financial information provided by TWDC. However, "Case 2" was projected by the Government for the purpose of studying the economic benefits from the expanded HKD. As the associated financial information was not available, it was not practicable to provide the estimated return on Government's investment under "Case 2". He added that TWDC had prepared the financial information under "Case 1A" and "Case 1B" based on its experience and expertise, but as the projections covered a long period of time, a degree of uncertainty was inevitable.

31. Ms Emily LAU said that it was inconceivable that the Government's projection was based on incomplete data, and that members were requested to consider the financial proposal without being given a full picture of the Government's investment return under "Case 2". Mr CHIM Pui-chung expressed grave concern about the reliability of the Government's projection given that it was not furnished with all the necessary data from TWDC.

32. The Chairman expressed concern whether the projected economic benefits of expanded HKD were achievable. While noting that the key storylines and technological elements of the new themed areas would not be substantially repeated in any other Disney theme park within five years from their opening, Ms Starry LEE enquired whether this had been taken into account when projecting the attendance for a 40-year operation period. SCED said that long-term assessment was subject to a range of uncertainties. Having regard to a total attendance of over 14 million in the past three operation years, the Administration was optimistic that the projected attendance based on an annual growth rate of around 1.9% would be achievable, noting that the Government had adopted a more conservative approach in assuming a lower penetration rate in its projection. The Chairman enquired if the attendance projection had taken into account the increasing number of visitors from the Mainland in accordance with its economic growth in the next 10 years. SCED said that the HKD management would not only target at visitors from the Mainland but also the regional market, especially those from Chinese-speaking areas. The Government's attendance projection would be adjusted according to changes in the visitors' profile.

33. The Government Economist (G Econ) explained that the Government's assessment (Case 2) was constructed on the basis of HKD's actual outturn in its past three operation years, including the actual number and additional spending of the base and induced tourists visiting HKD. It had further taken recognition of the likely depressed external economic environment over the next few years, particularly the lingering effect of the global financial tsunami on the total number of tourists visiting Hong Kong. The medium to longer term challenges from intense competition within the region and the expected demographic changes in Hong Kong were also duly taken into account in projecting the attendance level beyond the short term. All these factors were carefully considered and factored into the current assessment to examine the economic viability of HKD over a 40-year time frame. Referring to Enclosure 2 of the Administration's paper (CB(1)2090/08-09(01)) on attendance projections for the three cases, she pointed out that the projected attendance under Government's assessment, at 5.21 million by 2015 and 7.3 million by 2025, represented only a moderate annual growth rate of 1.9% 'between 2006-2025. Thus the current projections in Case 2 had been calibrated with a high degree of conservatism to take into account the wide range of uncertainties in the distant future.

34. Miss Tanya CHAN asked why there was a large difference between the projections made by TWDC and the Government in the economic assessment and attendance of the expanded HKD. She enquired about the assumptions behind

TWDC's projections. Mr IP Wai-ming remarked that it was extremely doubtful how the economic benefits brought by HKD and other tourism infrastructures such as Ocean Park could be differentiated.

35. G Econ referred members to Table 1 in Annex C of the Administration's paper (CB(1)2090/08-09(01)) which set out the major parameters in TWDC's projections. As indicated by TWDC, their attendance projections were based on the size, consumption power and growth potential of each of the major markets to project the penetration rates for individual markets and then aggregate them up to derive the overall attendance projections. "Case 1A" represented the "base case" attendance projection whereas "Case 1B" the "slower tourism case". Generally speaking, the projected penetration rates under TWDC's projections were higher than those in the Government's projection, because TWDC expected that the new themed areas would increase the attractiveness of HKD, whereas the Government's independent projection had adopted a more conservative approach in assuming a lower penetration rate to take into account factors including intense competition within the region and an aging population.

36. SCED said that the projected economic benefits were realistic as they were based on actual data in the past three operation years. She highlighted that HKD had created more than 10 000 jobs in terms of man-years in the economy in each of the past three years, and the construction of the park expansion would create about 3 700 jobs in terms of man-years between 2009 and 2014. The expansion project would generate job opportunities both at the construction stage and after completion of the expansion works. To address members' concerns, the Administration agreed to provide further information on the economic benefits brought by HKD in the past three years of operation and the supporting data to justify the Government's estimation, as well as further explanation on the substantial difference in the economic assessment of the expanded HKD project and attendance projections made by TWDC (i.e. "Case 1A" and "Case 1B") and the Government (i.e. "Case 2").

Employment opportunities

37. Dr PAN Pey-chyou recalled that TWDC had laid off 30 imagineers, most of them were Hong Kong employees, and had suspended all creative design work on the expansion project in March 2009 when the discussion with Government on the expansion project showed no sign of progress. He asked if these affected staff would be re-employed. SCED said that she believed the affected "Imagineers" would be re-hired as appropriate if the expansion project would be taken forward.

38. Dr PAN Pey-chyou enquired how the total number of jobs in terms of man-years created in the economy stemming from the expansion project, i.e. 20 600 in "Case 2" and 38 400 in "Case 1A" in 2024-2025 was estimated. G Econ explained that the assessment involved projecting the level and composition of visitors to HKD, estimating the additional spending of these visitors in Hong Kong and assessing the value-added or income, and in turn the additional employment that could be generated by such additional spending. The additional spending so

generated comprised direct value added in the retail, hotel, restaurant, transport and other tourism-related industries in the territory, and the local airlines; and indirect value added in other sectors such as logistics, transport and telecommunications. These direct and indirect added values were in a proportion of around 80% to 20% under the Government's projection.

Management fee

39. Noting that the current agreement reached between Government and TWDC in 1999 already provided for a variable management fee with the rate of 2% to 8% of earnings before interest, tax, depreciation and amortization (EBITDA), Mr Paul TSE enquired why the Administration had not adopted this basis of calculation in the past three years. DS(Tsy)2/FSTB apprised members that the management fee was made up of two components, namely base management fee and variable management fee. Back in 1999, the base management fee was set at 2% of gross revenue in line with the general practice of other Disney theme parks. Under the new arrangement, the formula for base management fee would be revised to 6.5% of EBITDA in order to provide more incentive for the management company to improve the park's performance. He emphasized that the new formula was unprecedented among Disney theme parks.

40. Mr Paul CHAN said that it was difficult to compare the existing and new formulae as members were not provided with the financial information of HKITP in the previous years, particularly in respect of depreciation, amortization and its accounting principles. Referring to the Administration's response to issues raised at the special meeting on 30 June 2009 (CB(1)2144/08-09(02)), Mr CHAN noted that for the years from 2009-2010 to 2044-2045, the effective rate of base management fee payable under both the new and old formulae on average would be about the same if the park could achieve the business performance projected by TWDC under "Case 1A". To safeguard public interests, he enquired whether the Administration would consider calculating the base management fee on the basis of "whichever of the two formulae was lower". He also suggested setting a park attendance threshold as a criterion for disbursing the management fee.

41. While agreeing that the new formula was more reasonable compared to the existing one, Ms Starry LEE suggested the Government negotiate with TWDC for pegging the management fee to a percentage of earnings after interest, tax, depreciation and amortization instead. Mr WONG Ting-kwong considered it a disadvantage to the Government to revise the formula for calculating the management fee, i.e. to replace the current formula of 2% of gross revenue by 6.5% of EBITDA.

42. SCED said that the Administration had considered different options before coming up with the proposed new formula which was considered objective and could provide an appropriate level of incentive for HKDML to deliver results. DS(Tsy)2/FSTB added that the proposed new arrangement for the calculation of base management fee represented a significant concession from TWDC as it was not previously implemented in any Disney theme parks. While the new formula

would give a base management fee of roughly the same amount as that calculated under the existing formula under "Case 1A", it was expected to reduce the base management fee by 30% under the more conservative projection of "Case 1B".

43. In response to members' concerns raised on the calculation of management fee, the Administration was requested to provide a written response on whether it would be in the interest of the public that the management fee payable to the HKDML would be calculated (i) using the current formula or the proposed performance-linked formula, whichever was the lower; (ii) using a formula pegged to earnings after interest, tax, depreciation and amortization; and (iii) after meeting a pre-set park attendance threshold. The Administration was also requested to advise on the accounting principles to be adopted for the calculation of depreciation and amortization.

Park management

44. Mr CHAN Kam-lam expressed support for the proposal in view of the economic benefits that HKD could bring to Hong Kong. However, he was concerned about the effectiveness of park management, and asked what actions would be taken if the park's operation and financial performance did not improve. Mr CHAN recalled that the former Secretary for Commerce and Economic Development had commented that it was difficult for the Government to influence the operation of HKD and obtain relevant information. He was therefore concerned about the limited power the Government could exercise in the Board of Directors of HKITP to improve the park's operation and management.

45. Mr Paul TSE suggested that instead of appointing five Government officials to the Board of Directors of HKITP, the Administration should consider appointing experts experienced in business operation and financial management to the Board. Mr Albert HO suggested engaging the Financial Services and Treasury Bureau officials to scrutinize HKITP's financial performance.

46. SCED responded that it was a common goal and obligation of TWDC and the Government to enhance the park's performance and HKITP's financial results in order to achieve early investment return. To encourage the management to deliver results, the Government had obtained TWDC's agreement to revise the formula for calculating the base management fee to link it to the performance of HKITP. She advised that the Board of Directors of HKITP would be responsible for the supervision of HKITP and it would take effective measures to improve the park's financial performance. The Board comprised five Government directors, four Disney directors and two independent non-executive directors. Where necessary, the Government would engage relevant expertise and professionals to assist in the supervisory work, and the two existing independent non-executive directors on the Board, i.e. Mr Philip CHEN (Deputy Chairman of Cathay Pacific Airways Limited and former Chairman of the Board of Ocean Park Corporation) and Mr Payson CHA (Chairman of Asia Television Limited) were distinguished managers in the business sector.

47. Ms Emily LAU said that it appeared to her that the park management lacked the necessary skills and experience in managing HKD, and Panel members often had to give advice and urge the management to make improvements. She was disappointed that HKD had not sent representatives to this meeting. SCED said that while HKD had yet to meet the target attendance in the early years of its operation, the park management was making improvements in the past year. She assured members that the park management would strive to enhance the park's operation.

48. Mr Albert HO remarked that although the Government maintained majority shareholding in the joint-venture, the day-to-day management of the park was largely in the hands of TWDC. In view of the large scale of the joint-venture, and as the Government directors and independent non-executive directors might be too busy to attend to the business of HKD, Mr HO suggested creating a second-tier management to monitor the performance of HKITP. Mr CHIM Pui-chung also expressed concern that although the five Government directors represented a majority in the Board of HKITP, there were four Disney directors and the majority status of Government would be at stake should there be any dissenting views among the Government directors.

49. SCED said that as a Government director of the Board, the Commissioner for Tourism would oversee the operation of HKD and closely liaise with the management company in this regard. While the Board could not possibly attend to the routine operation of HKD, it would lay down the general policies and strategies for execution by the management company and the latter was fully accountable to the Board for the performance of HKITP.

50. To enhance the operation of the park, Mr WONG Ting-kwong suggested that the Administration should review its policy measures to enable transit passengers to visit HKD before returning to the Mainland. HKD should also roll out more joint promotions with other tourist attractions in Hong Kong (e.g. Ngong Ping 360) and boost the outlet business in Tung Chung to complement the development of HKD and increase the visitor flow thereat. He considered that the HKD management should review the language medium of its shows and programmes to cater for the needs of Putonghua-speaking visitors from the Mainland. SCED thanked Mr WONG for his suggestions and said that the Administration would follow up with HKD. She informed members that the park management had been introducing more programmes in Putonghua.

New themed areas and attractions

51. Referring to members' concerns about the choice of new themed areas under the expansion project as raised at the meeting on 30 June 2009, SCED explained that the Administration had requested the replacement of one of the proposed themes, i.e. Glacier Peak, to avoid overlapping with a new attraction of Ocean Park and to ensure that resources be put to gainful and cost-effective use.

52. Ms Starry LEE relayed the comments of some Disney fans that most of the 30 odd new attractions in the new themed areas were phototaking zones, and there were few large-scale interactive facilities. She also asked whether the proposed attractions had taken into consideration the need to avoid overlapping with the attractions in the proposed theme park in Shanghai. SCED advised that of the three new themed areas under TWDC's expansion proposal, two would be exclusive to HKD amongst Disney theme parks worldwide while the remaining one would be exclusive amongst Disney theme parks within the Asian region at the time of their respective opening. The combination of key storylines and technological elements of the proposed themed areas would not be substantially repeated in any other Disney theme park within five years from their opening.

53. Ms Starry LEE enquired whether the five-year time limit could be extended to further protect the interests of HKD. The Commissioner for Tourism pointed out that the proposed arrangement was a special deal unique to HKD. The five-year time limit was deemed reasonable, considering the duration that new attractions could normally retain its novelty appeal to visitors.

54. Mr IP Wai-ming remarked that the exclusivity of attractions might not necessarily guarantee their appeal to visitors. Miss Tanya CHAN referred to some online discussion about the proposed new themed area of "Toy Story Land", and pointed out that some Disney fans were looking forward to having the new 4-D attraction "Toy Story Mania" included in the new attraction.

55. SCED said that having attractions that were exclusive to HKD among other Disney theme parks would certainly enhance the appeal of the park. The Administration had studied the visitors' profile and their preferences before confirming the direction to provide more thrill rides and exciting features in the new themed areas in order to enrich visitors' experience and attract more young adult visitors. She said that the release of "Toy Story 3" should generate renewed interest in the Toy Story, and the "Toy Story Land" would feature new technological elements.

The way forward

56. In concluding the discussion, the Chairman said that members had expressed divergent views on the financial proposal.

57. Ms Emily LAU opined that as the Administration had not been able to address members' concerns raised at the meeting, it would not be appropriate for the Administration to forward the proposal to FC for discussion on 10 July 2009. She suggested deferring the FC meeting for the consideration of the financial proposal to a later date to allow more time for the Administration to further discuss with TWDC to address members' concerns and provide the requested information.

58. Mr Albert HO opined that the Government should not appear to be anxious to conclude the discussion with TWDC under a tight timeframe, and should not give TWDC an impression that the Government would not withdraw investment

from the HKD project. He suggested the Government re-open discussion with TWDC on the issues raised at the meeting. SCED responded that the global economic situation and volatile investment environment would add uncertainties to the prospect of the capital injection from TWDC and other terms of the agreement if the negotiation dragged on. It would not be advisable to re-open the negotiation with TWDC at this juncture.

59. Mr Albert CHAN considered that the financial proposal should be submitted to FC only upon recommendation of the Panel. At the invitation of the Chairman, the Clerk advised that at the Panel meeting on 30 June 2009, members had already agreed to the Government submitting the financial proposal to FC. Mr CHAN strongly objected to the Government forwarding the financial proposal to FC. He urged members to exercise caution in considering the proposal as it involved huge public resources.

60. Mr Albert CHAN and Ms Emily LAU requested a further Panel meeting be held to discuss the financial proposal. Ms LAU requested the LegCo Secretariat to list out the concerns raised by members at the Panel meeting for the Administration's written response.

(*Post-meeting note*: The list of follow-up actions arising from the discussion at the meeting and the Administration's written response were circulated on 9 July 2009 vide CB(1)2206/08-09(01) and (02).)

61. The Chairman suggested and members agreed that a further Panel meeting would be scheduled to continue the discussion. The LegCo Secretariat would inform members of the meeting arrangements.

(*Post-meeting note*: A special meeting was subsequently scheduled for 8:30 am, 10 July 2009 and the notice of meeting was circulated on 6 July 2009 vide CB(1)2169/08-09.)

II Any other business

62. There being no other business, the meeting ended at 11:15 am.

Council Business Division 1
Legislative Council Secretariat
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