

立法會
Legislative Council

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Panel on Economic Development

Minutes of meeting
held on Monday, 22 June 2020, at 10:45 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon CHUNG Kwok-pan (Chairman)
Hon WU Chi-wai, MH (Deputy Chairman)
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon YIU Si-wing, BBS
Hon Kenneth LEUNG
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon Elizabeth QUAT, BBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, BBS, JP
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon LUK Chung-hung, JP
Hon Jeremy TAM Man-ho

Members absent : Hon James TO Kun-sun

Hon WONG Kwok-kin, SBS, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding

**Public Officers
attending** : Agenda item II

Transport and Housing Bureau

Dr Raymond SO, BBS, JP
Under Secretary for Transport and Housing

Mr Raymond CHENG
Head (Airport Expansion Project Coordination Office)
Transport and Housing Bureau

Ms Alice YEUNG
Principal Assistant Secretary (Airport Expansion
Project Coordination Office)
Transport and Housing Bureau

Mr Kelvin NG
Chief Assistant Secretary (Airport Expansion Project
Coordination Office)
Transport and Housing Bureau

Airport Authority Hong Kong

Mr Kevin POOLE
Executive Director, Third Runway

Mr David WOO
Treasurer

Mr Peter LEE
General Manager, Environment, Third Runway

Agenda item III

Commerce and Economic Development Bureau

Mr Edward YAU, GBS, JP
Secretary for Commerce and Economic
Development

Mr Joe WONG, JP
Commissioner for Tourism

Miss Katharine CHOI
Deputy Commissioner for Tourism

Miss Wendy CHUNG
Assistant Commissioner for Tourism

**Related
organization**

: Agenda item III

Hong Kong Disneyland Resort

Ms Stephanie YOUNG
Managing Director

Ms Anita LAI
Vice President, Communications and Public Affairs

Clerk in attendance: Ms Shirley CHAN
Chief Council Secretary (4)5

Staff in attendance : Ms Shirley TAM
Senior Council Secretary (4)5

Ms Lauren LI
Council Secretary (4)5

Ms Zoe TONG
Legislative Assistant (4)5

Miss Mandy LUI
Clerical Assistant (4)5

Action

I. Information papers issued since the last meeting

(LC Paper No. CB(4)609/19-20(01) — Administration's response to the letter from Hon WU Chi-wai dated 27 April 2020 on the

permanent set-up and staffing proposals of Air Accident Investigation Authority as set out in LC Paper No. CB(4)516/19-20(01)

- LC Paper No. CB(4)625/19-20(01) — Tables and graphs showing the import and retail prices of major oil products from May 2018 to April 2020 furnished by the Census and Statistics Department
- LC Paper No. CB(4)690/19-20(01) — Information paper provided by the Administration on Government's investment in Cathay Pacific Airways Limited under the Land Fund to uphold Hong Kong's status as an international aviation hub
- LC Paper No. CB(4)700/19-20(01) — Letter from Hon Jeremy TAM Man-ho dated 10 June 2020 regarding the Government's investment in Cathay Pacific Airways Limited under the Land Fund (Chinese version only)
- LC Paper No. CB(4)720/19-20(01) — Administration's response to the submission from the Hong Kong Tourism Association dated 24 May 2020 concerning the resumption of people flow between Hong Kong and Macao/Shenzhen as set out in LC Paper No. CB(4)619/19-20(01))

Members noted the above papers issued since the last regular meeting.

II. Update on the development of the three-runway system at Hong Kong International Airport

(LC Paper No. CB(4)710/19-20(01) — Airport Authority Hong Kong's paper on update on the development of the three-runway system at the Hong Kong International Airport

LC Paper No. CB(4)710/19-20(02) — Paper on the development of the three-runway system at the Hong Kong International Airport prepared by the Legislative Council Secretariat (updated background brief))

Declaration of interest

2. Ir Dr LO Wai-kwok declared that he was a member of the Board of the Airport Authority Hong Kong ("AAHK"). Mr YIU Si-wing declared that he held interests in a company which was a tenant at the Hong Kong International Airport ("HKIA"). The company provided transit/transfer services at HKIA.

Presentation by the Administration and AAHK

3. At the invitation of the Chairman, Under Secretary for Transport and Housing ("USTH") gave an introductory remark on the development of the three-runway system ("3RS") project at HKIA. With the aid of powerpoint presentation materials, Mr Kevin POOLE, Executive Director, Third Runway of AAHK, briefed the Panel on the updates relating to reclamation and construction progress of the 3RS project, as well as the relevant environmental-related initiatives and achievement. Mr David WOO, Treasurer of AAHK, briefed members further on the latest implementation timeline of the financial arrangement plan. The exact arrangement might vary with the funding needs of AAHK, the market environment and the construction progress of the 3RS project. Other details were set out in AAHK's paper (LC Paper No. CB(4)710/19-20(01)).

(Post-meeting note: The powerpoint presentation materials provided by AAHK were issued to members vide LC Paper No. CB(4)744/19-20(01) on 22 June 2020.)

Discussion

Financial arrangement

4. Mr CHU Hoi-dick noted that according to the indicative implementation timeline of the detailed funding plan provided by AAHK, the total amount of third-party debts from the market would range from HKD55 billion to HKD78 billion, which might exceed HKD69 billion as indicated in the breakdown of the 3RS funding sources in AAHK's financial advisor's consultancy study in 2015. In this regard, he enquired if the breakdown of the 3RS funding sources, which indicated that AAHK would fund the 3RS project through three sources namely retaining AAHK's operating surplus (HKD47 billion); levying an Airport Construction Fee ("ACF") (HKD26 billion); and borrowing/raising funds from the market (HKD69 billion), was still valid. Mr David WOO of AAHK confirmed that the breakdown was still valid, and said that AAHK would continue to stay alert against changes and closely monitor the market development.

5. Ms Claudia MO noted that the issuance of a 3-year HKD5 billion fixed-coupon retail bond originally scheduled for 2019-2020 would be deferred to 2020-2021, and that AAHK planned to take commercial bank loans of HKD20-30 billion to finance the 3RS project. She was worried that confidence of overseas investors towards Hong Kong might be weakened under the current political atmosphere, which might affect the above financing plans of AAHK. In this connection, she enquired about the financial situation of AAHK, in particular information on its revenues, expenditures and liabilities. She was worried that AAHK might need to seek the Government's assistance financially in the end, and asked AAHK to guarantee that no financial support from the Government would be required for the 3RS project.

6. USTH advised that the financial arrangement for the 3RS project was based on the "joint contribution and user-pay" principle. With the advice of AAHK's financial advisor, the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), AAHK would fund the 3RS project through three sources namely retaining AAHK's operating surplus; levying an ACF; and borrowing/raising funds from the market. Currently, no fund allocation, capital injection or loan guarantee from the Government was required.

7. Mr David WOO of AAHK advised that based on the consultancy studies of AAHK's financial advisor, the financing arrangement for the 3RS project had

already taken into consideration various scenarios. He was confident that the financial situation of AAHK would improve as the market recovered. He added that banks considered that the present economic situation would only be short-term, and that the commercial banks were willing to commit to a five-year loan.

8. Mr Kenneth LEUNG noted that AAHK would, among other things, issue a retail bond amounting to HKD5 billion and obtain HKD20-30 billion loans from commercial banks to fund the 3RS project. He pointed out that the size of the retail bond was significantly smaller than commercial bank loans, and enquired about AAHK's considerations in coming up with such an arrangement. He was of the view that issuance of retail bonds could greatly enhance the status of Hong Kong's bond market, and considered the size of AAHK's retail bond conservative.

9. Ms Claudia MO noted that AAHK would raise third-party debts from the market totaling HKD69 billion and the amount could reach a maximum of HKD78 billion, which would include commercial bank loans of up to HKD30 billion. She considered the proportion of bank loans high, and enquired about the reasons for such a distribution.

10. Mr David WOO of AAHK advised that HKD55-78 billion only represented the sums of the lower and higher bounds of each debt instrument type, and that AAHK only planned to raise HKD69 billion from the market. He also explained that AAHK would not be able to finance the 3RS project by merely retaining AAHK's operating surplus and levying an ACF up to the project completion in 2024-2025. External borrowings were therefore required. Collection of ACF would remain effective until 2030-2031 when all the 3RS-related borrowings were expected to be repaid based on the consultancy studies of AAHK's financial advisor. Out of HKD69 billion borrowings, only HKD20-30 billion would be sourced from bank loans. He added that the financial arrangement was devised to spread the borrowings over different types of debt instruments of different tenures with a view to achieving a more even risk distribution.

11. Mr CHAN Chun-ying was of the view that given the current condition of the aviation industry, the cost of bond issuance and borrowing from banks might be much higher than the estimated cost. He asked if AAHK had conducted any assessment on the cost of the various types of debt instrument under the detailed funding plan. He further enquired if the combination of the debt instrument types would be re-arranged to lower the cost of financing.

12. Mr David WOO of AAHK advised that comparing to the situation in the past few years, interest rates were generally lower due to the current sluggish global economic environment. The lending rate for AAHK did not see material changes due to the relatively strong credit rating of AAHK. AAHK would adhere to the recommendations made by its financial advisor, HSBC, in the detailed funding plan. He added that given the size of the financing involved, any AAHK's plan to focus on a particular financing instrument would eventually drive up the interest costs for that particular instrument in the market. AAHK would continue to source funding through the established plan via various instruments of different tenures to suit the needs of the 3RS project.

13. Mr SHIU Ka-fai considered it unacceptable that AAHK's Chief Executive Officer was absent from this meeting as well as an earlier meeting with representatives of the retail sector to discuss matters relating to rental concessions for shops at HKIA. Besides, he noted that AAHK would finance the 3RS project by, among others, collecting ACF on air tickets issued from 1 August 2016 for departing passengers at HKIA. Having regard to the drastic reduction in the number of departing passengers from HKIA due to the social events starting from June 2019 and the Coronavirus Disease 2019 ("COVID-19") pandemic, he enquired about the measures AAHK would take, for example by extending the period for ACF collection or increasing the level of ACF, to make up for the difference. He was worried that the Government would have to finance the 3RS project in the event that AAHK was unable to collect the estimated amount of ACF.

14. Mr David WOO of AAHK advised that the current funding arrangement plan was established in the consultancy studies of AAHK's financial advisor released in 2015 and 2017. The collection of ACF was based on the "joint contribution and user-pay" principle. While AAHK would closely monitor the development of the events, AAHK had no intention to increase the level of ACF or extend the period of ACF collection at this stage.

15. In response to Ms Claudia MO's enquiry about whether the collection period of ACF would be extended, Head (Airport Expansion Project Coordination Office) of Transport and Housing Bureau ("H(AEPCO)") advised that according to the financial arrangement plan for the 3RS project, collection of ACF would remain in effect until all the 3RS-related borrowings had been fully repaid, which was expected to be in the financial year 2030-2031.

16. Mr YIU Si-wing noted that the Government had issued the Red Outbound Travel Alert on all overseas countries/territories since 17 March 2020. All transit/transfer services at HKIA had also been suspended since 25 March 2020. He thanked AAHK for its relief measures amounting to HKD4.6 billion for supporting the airport community in spite of the said anti-epidemic measures which had largely affected the operation of AAHK. In this regard, he expressed concern about AAHK's cash flow in view of its huge expenses and the decrease in AAHK's income. He also enquired about AAHK's assessment on its financial condition, in particular the circumstances under which AAHK would face a financial crisis.

17. Mr David WOO of AAHK advised that AAHK's cash flow was adequate after taking into account the 3RS-related expenses and the authority's operating expenses. He added that when AAHK had decided to defer the issuance of the retail bond from 2019-2020 to 2020-2021, AAHK immediately discussed with the banks concerned the feasibility of increasing the amount of loans so as to ensure adequate cash flow. He stressed that AAHK had adequate cash flow in the medium to long term.

18. Mr YIU Si-wing asked if the rental relief for retail and catering tenants to be offered by AAHK in July and August 2020 was included in the relief measures that totaled HKD4.6 billion, and sought information on AAHK's next round of relief measures in case the aviation industry had not yet recovered in July and August 2020. He was of the view that better coordination could be achieved if the Government could take the lead in the next round of relief measures.

19. H(AEPCO) advised that the Government would closely monitor the development of the aviation sector to map out the next step in addition to the HKD4.6 billion relief measures provided by AAHK. USTH added that the Government would continue to communicate with AAHK and stakeholders and closely monitor the conditions of the economy and the trade with a view to reviewing the measures at an appropriate juncture. The Government would try its best to help the trade tide over the difficult time.

Fill materials and reclamation progress

20. Mr Jeremy TAM was concerned about the supply of marine sand from Guangdong Province. He said that the failure to obtain marine sand supply from Guangdong as scheduled had resulted in the use of more manufactured sand and the increased use of deep cement mixing ("DCM") works, which had

subsequently pushed up the actual expenses for reclamation works. He enquired if AAHK would lodge a claim against the main reclamation contractor for the additional costs incurred.

21. USTH advised that in July 2019, the Guangdong Provincial Government had completed the auctions for three sand sources. The main reclamation contractor had all along maintained close liaison with the winning bidder on the supply arrangement. Marine sand supplies from Zhanjiang, which was located in Guangdong Province, had been introduced since May 2020 and would continue to supply fill materials for the reclamation works. Mr Kevin POOLE of AAHK added that despite the impact of COVID-19, the extent of programme slippage in the reclamation works had been successfully mitigated from 18 weeks to 6 weeks through the hard work of the main reclamation contractor. Reclamation fill was mainly sourced from diversified sources, with a considerable portion from the customized manufactured sand from Guangdong. The supply was lately further supplemented by marine sand supply from Guangdong and Guangxi. He further pointed out that AAHK had worked with the main reclamation contractor to re-phase the works and bring the 3RS project back on track towards the commissioning targets of the third runway in 2022 and the entire 3RS in 2024. To this end, the increased use of DCM works had supported the programme re-phasing and brought about technical advantage (such as reduced long term settlement) to the 3RS project as a whole. AAHK continued to manage the 3RS project as well as the reclamation works within budget. AAHK would continue to manage the 3RS project with all its contractors according to prudent management practices.

22. Mr Jeremy TAM did not subscribe to Mr Kevin POOLE of AAHK's response that there were benefits regarding the increased use of DCM works and that the expenditure on reclamation works was still within the budget of reclamation. He pointed out that although AAHK had claimed that the 3RS project was still within the overall budget, the increased use of DCM works had actually raised the expenditure on the reclamation works. He maintained that AAHK should hold the main reclamation contractor accountable for the additional expenses incurred by the increased use of DCM works. Mr Kevin POOLE of AAHK advised that there were many benefits of increased use of DCM for reclamation works and considerations should not only focus on its costs.

23. As regards the main reclamation contractor's supplies of fill materials from Taiwan, Mr CHU Hoi-dick sought information on the details of the fill materials concerned and the location(s) of the source(s) of such materials.

He said that there were media reports in Taiwan alleging that sand barges from Mainland China stole at least 5 million square metres of sand from Taiwan waters, totaling HKD1.5 billion. The media reports also alleged that the company involved used fake export licence to certify that such sand fills were obtained legally from Malaysia and the Philippines. He said that AAHK had previously given a response to the allegations, stating that AAHK would ensure all marine sand from outside Hong Kong should come from legitimate means. He thus enquired if the Administration/AAHK had conducted any investigation into the allegations mentioned above.

24. Mr Kevin POOLE of AAHK advised that AAHK was aware of the media reports Mr CHU Hoi-dick mentioned and had looked into the matter. He confirmed that the matter did not apply to AAHK's contractors, and said that AAHK would carefully check the credentials of the imported fill materials to ensure that all of them were from legitimate sources. He advised that the fill materials from Taiwan used in the reclamation works were processed dredged materials. USTH remarked that the government departments concerned would conduct spot checks on the declaration documents for imported fill materials in accordance with established mechanism. He understood that AAHK had required its contractors to comply with the relevant laws and regulations of Hong Kong and the places of origin. H(AEPCO) added that AAHK had examined the relevant documents from the reclamation contractor which certified that the fill materials were processed and washed from dredged materials produced by a dredging contract in Taiwan through legitimate means. The Chairman requested the Administration/AAHK to provide a written response to Mr CHU's enquiries after the meeting.

(Post-meeting note: The supplementary information from the Administration and AAHK was issued to members vide LC Paper No. CB(4)855/19-20(01) on 6 August 2020.)

25. Mrs Regina IP said that to her understanding, fill materials imported to Hong Kong for the reclamation works of the 3RS project should comply with certain environmental requirements. She opined that such requirements made it more difficult for contractors to find suitable fill sources. She was concerned whether contractors knew about such requirements before importing the fill materials, and what remedial actions they could take in the event that fill materials not complying with such requirements had been imported. She also sought information on the relevant environmental requirements.

26. Mr Kevin POOLE of AAHK advised that the relevant requirements were clearly stated in the contract, and were set out in the Environmental Permit ("EP") of the 3RS project. AAHK was cautious about the specifications of the fill materials used in the reclamation works. The specifications were precise in the environmental and engineering constraints. Contractors should show that the fill materials were from verified sources and be able to present the relevant documents to AAHK. As an environmentally friendly measure, AAHK had also maximized the use of public fill in the reclamation works from the stockpiles in the fill banks at Tseung Kwan O and Tuen Mun. Mr Peter LEE, General Manager, Environment, Third Runway of AAHK, added that EP had specified a maximum of 20% fines content for marine filling with a view to protecting marine ecology.

27. Mr Kenneth LEUNG sought clarification on the reclamation progress concerning the areas that were needed for operation of the third runway in 2022. He was also concerned if the expenditure on reclamation works had so far been commensurate with the percentage of works completed. He enquired about the amount which had exceeded the original budget, if applicable, and the measures that had been put in place for controlling the cost of the reclamation works.

28. Mr Kevin POOLE of AAHK explained that the reclamation works of the 3RS project comprised many components. Marine-based DCM works were used in over half of the reclamation area to solidify the soft materials before reclamation filling could be placed above it. At present, 97% of the marine-based DCM works had been completed under the whole platform of reclamation land. Land-based DCM works, which was less critical to the ongoing main works, would then be carried out once the reclamation filling was up to the required level. About 83% of seawall, measuring 12km in length, had been completed. To date, the project estimate still remained within the original budget of HKD141.5 billion and the expenditure of the reclamation works was also within its allocated budget. He assured members that AAHK would continue to manage the budget and the 3RS project with diligence.

29. Mr CHAN Chun-ying noted that the 18 weeks of slippage in reclamation works had been reduced to six weeks, and enquired about the factors contributing to the catching up in the works progress. Mr Kevin POOLE of AAHK confirmed that the progress was caught up out of the combined effort of AAHK and the main reclamation contractor in securing adequate supply from a diversity of fill sources. Efforts had been made to re-phase some of the reclamation works to firstly focus on the critical areas, i.e. areas needed for operation of the third runway in 2022, which would then be followed by the less

critical areas. The outbreak of COVID-19 impacted on the reclamation programme in terms of the interrupted fill supply in February and March 2020. AAHK would focus to recover the 6-week slippage in the coming year.

Airspace arrangement

30. Mr Jeremy TAM was concerned about the progress of airspace arrangement with Mainland China. Principal Assistance Secretary (Airport Expansion Project Coordination Office) of Transport and Housing Bureau ("PAS(AEPCO))" advised that the Tripartite Working Group ("TWG"), which was set up by the Civil Aviation Administration of China, the Civil Aviation Department of Hong Kong and the Civil Aviation Authority of Macao in 2004, would continue to formulate and implement measures to optimize airspace and air traffic management in the Pearl River Delta region, with a view to progressively achieving the ultimate target runway capacity of 102 air traffic movements per hour under 3RS at HKIA. TWG was currently undertaking the Fast Time Simulation work of modeling and simulation of the airspace and air traffic in the Guangdong-Hong Kong-Macao Greater Bay Area. It would formulate specific measures to further optimize airspace and air traffic management based on the results of the assessment and analysis. The Fast Time Simulation work was expected to be completed in the second half of 2020. A detailed study would then follow.

31. Mr Jeremy TAM requested a copy or an extract of the relevant document upon the completion of the Fast Time Simulation work. PAS(AEPCO) replied that as sensitive information would be involved in the document, parties concerned should be consulted before disclosure of such content. As a usual practice, the Government would keep the public informed of any latest airspace arrangement in the form of a press release.

Conclusion

32. The Chairman concluded that members were generally concerned about the financial arrangement and the progress of reclamation works of the 3RS project. He urged AAHK to exercise strict budget control in implementing the 3RS project with a view to ensuring that no financial backing would be required from the Government.

III. Update on Hong Kong Disneyland Resort

(LC Paper No. CB(4)390/19-20(06) — Administration's paper on the update on Hong Kong Disneyland Resort

LC Paper No. CB(4)710/19-20(03) — Paper on Hong Kong Disneyland prepared by the Legislative Council Secretariat (updated background brief)

Presentation by the Administration and the Hong Kong Disneyland Resort

33. At the invitation of the Chairman, Secretary for Commerce and Economic Development ("SCED") gave an introductory remark on the update on the Hong Kong Disneyland Resort ("HKDL"). With the aid of the powerpoint presentation materials, Ms Stephanie YOUNG, Managing Director of HKDL, briefed members on the operation of HKDL in Fiscal Year 2019 ("FY19") (i.e. from October 2018 to September 2019). Members noted that during the first nine months of FY19, HKDL achieved business growth with the launch of new offerings and targeted marketing and sales strategies. However, the downturn of the tourism industry in the second half of 2019 brought severe impact on HKDL's business performance in the last quarter of FY19. In FY19, a 4% year-on-year drop in total park attendance to 6.5 million was recorded. HKDL's total revenue in the year was at \$6,047 million. Earnings before interest, taxes, depreciation and amortization ("EBITDA") were \$1,126 million. After deducting interest, taxes, depreciation and amortization, FY19 saw a net loss of \$105 million. Details of the briefing were set out in the paper provided by the Administration (LC Paper No. CB(4)390/19-20(06)).

(Post-meeting note: The powerpoint presentation materials provided by HKDL were issued to members vide LC Paper No. CB(4)744/19-20(02) on 22 June 2020.)

Discussion

Financial situation of HKDL

34. Mr Jeremy TAM expressed concern about matters relating to potential staff layoff at HKDL. In response, Ms Stephanie YOUNG of HKDL advised that HKDL had neither laid off any employees nor had any plans to do so

despite the prevailing COVID-19 pandemic. Mr TAM commended HKDL's efforts as remarkable in this regard.

35. Mr SHIU Ka-fai expressed support for HKDL and appreciated its efforts in preserving jobs during the five-month closure of its theme park from late January to mid-June 2020. In this regard, he enquired if HKDL had adjusted the salary of its employees during the park closure. Mr LUK Chung-hung shared a similar concern, and enquired if staff of HKDL had to take pay-cuts and/or unpaid leave in the last six months. Furthermore, Mr SHIU pointed out that HKDL's costs and expenses had increased from \$4,666 million to \$4,921 million from FY18 to FY19, yet its revenues in the two years remained at similar levels. Coupled with the impact of the social incidents and the COVID-19 pandemic, he urged HKDL to carefully manage its operating costs so as to prevent any financial difficulties similar to what Ocean Park was currently facing.

36. Mr Kenneth LEUNG noted that having taken into account the fourth quarter impact, HKDL's revenue for FY19 had no change year-on-year. Besides, he was concerned if the current cash flow of HKDL was adequate to meet necessary expenses like salary of staff. He also sought information on the business recovery plan of HKDL, in particular about the directions of the plan and the assumptions underlying the plan.

37. Mr YIU Si-wing was of the view that HKDL's income should have been seriously affected due to the social incidents, the COVID-19 pandemic and the five-month park closure. He was thus concerned if HKDL would encounter rupture in capital flow like Ocean Park, in particular under the current sluggish economic condition, and enquired if any assessment had been conducted in regards of the capital flow of HKDL. He also expressed concern about the impact of the reduction in HKDL's income on the progress of the multi-year expansion and development plan at the Phase 1 site of HKDL ("the Plan"), which aimed to sustain and refresh HKDL's appeal through the launch of a series of new attractions during 2018 and the subsequent years at HKDL's theme park.

38. Ms Stephanie YOUNG of HKDL advised that in response to the drastic impact of the decrease in visitor arrivals in the fourth quarter of FY19 and the closure of HKDL's theme park for nearly five months, HKDL had taken measures to manage its costs prudently. For instance, HKDL exercised natural attrition instead of filling vacancies immediately. In respect of marketing and sales expenses, HKDL re-negotiated certain contracts for support and services

for HKDL with the vendors concerned, most of whom were willing to make price reductions. In addition, all vice-presidents and above executives had taken a 20-30% pay-cut since April 2020. All other permanent staff were also required to take a one-day-per-week unpaid leave from mid-April until mid-June 2020 when the park re-opened. She added that HKDL would be agile in continuing to focus on recovery and make any necessary adjustments to its business plans.

39. Ms Stephanie YOUNG of HKDL further advised that efforts in taking forward the Plan continued even during the COVID-19 pandemic, though the supply of construction materials for the Plan had slowed down during the period. She said that the first new offering under the Plan, "Moana: A Homecoming Celebration" stage show, opened in May 2018. HKDL also debuted the "Ant-Man and The Wasp: Nano Battle!" attraction in end-March 2019. The next new attraction under the Plan, the "Castle of Magical Dreams", was planned to be unveiled by end-2020. While HKDL was currently evaluating the impact on the construction efforts underway, the Plan would be conducive to HKDL's business recovery and help drive visitor arrivals to Hong Kong. She stressed that HKDL had been very prudent in managing its cost and cash flow during the difficult times, allowing the Resort to make adjustments to its cost and infrastructure and continue with the Plan.

40. Mr LUK Chung-hung noted that the downturn of the tourism industry caused by the social incidents had brought severe impact on HKDL's business performance from July to September 2019 amidst some 30% year-on-year drop in Hong Kong's overnight visitor arrivals during the period. In this regard, he requested information on HKDL's assessment on the impact of decrease in park attendance, including its assessment on the number of Mainland and non-Mainland visitors, on the financial situation of HKDL after the COVID-19 pandemic had subsided.

(Post-meeting note: The Administration's response was issued to members vide LC Paper No. CB(4)866/19-20(01) on 20 August 2020.)

41. Mr YIU Si-wing enquired about the measures taken by The Walt Disney Company ("TWDC") to support HKDL to tide over the challenging times, in particular whether there would be reduction in royalties and management fees payable by HKDL to TWDC. In response, SCED advised that HKDL achieved business growth under normal business environment during the first nine months of FY19. However, unexpected conditions including the closure of the theme park might have affected HKDL's cash flow. He pointed out that should

there be any short-term liquidity needs, HKDL could utilize the existing revolving credit facility provided by TWDC to support its operations. He considered that the market situation in the coming years could be challenging as global tourism might not be able to recover within a short period of time, and therefore HKDL had to be more cautious in controlling its costs. He said that as royalties and management fees payable to TWDC by HKDL were fully linked to HKDL's revenues and EBITDA respectively, such fees would be lower when HKDL's income dropped, and they would not be incurred in case there was no revenue during the difficult times.

42. The Chairman enquired if HKDL had applied for the Government's Employment Support Scheme, under which time-limited financial support would be provided to employers to retain employees who might otherwise be made redundant. Ms Stephanie YOUNG of HKDL replied in the affirmative.

Park attendance

43. Mr LUK Chung-hung was of the view that the number of Mainland visitors had been driven down significantly by the social incidents. He thus enquired about HKDL's measures to increase park attendance to cover the loss of Mainland visitors. Ms Stephanie YOUNG of HKDL advised that HKDL would continue to focus on the local market and would try to boost the pool of its annual pass membership, i.e. the Magic Access ("MA") membership. She said that while exclusive benefits would be offered to MA members, promotional offers on dining and hotel stays would also be provided to local residents with a view to attracting families which were unable to travel abroad during the summer.

44. Mr Kenneth LEUNG noted the guest mix of HKDL in FY19, and was of the view that HKDL should pay more efforts in boosting the number of guests from other countries with a view to diversifying the revenue base. In response, Ms Stephanie YOUNG of HKDL advised that HKDL achieved attendance growth from non-local markets like Japan, Thailand, the Philippines, etc. For example, HKDL recorded 40% annual attendance growth from Japan in FY19. Leveraging on the opportunities that these markets had different holidays and travelling patterns, HKDL partnered closely with individual trade partner in grasping such opportunities to boost growth from these markets.

45. Mr Kenneth LEUNG considered that HKDL should offer Japanese tourists a different experience from Tokyo Disneyland. In this regard, he asked how HKDL differentiated itself from Tokyo Disneyland. Ms Stephanie

YOUNG of HKDL advised that some Japanese tourists visited HKDL frequently as the theme park offered the unique character experiences of the Duffy family. Comparing with Tokyo Disneyland, tourists enjoyed more reasonable prices at HKDL and queues in HKDL were relatively shorter. Furthermore, Japanese-speaking cast members were available at HKDL to support the Japanese guests. She stressed that during this unprecedented time when there were nearly no visitor arrivals to Hong Kong, HKDL would focus on local residents at the initial stage of park re-opening. However, to prepare itself for enticing tourists from other markets to visit HKDL, HKDL had been paying close attention to close vicinity markets and the development of travel bubbles, as well as leveraging on the opportunities brought by the Plan.

46. Mr Jeremy TAM declared that he was an MA member. He suggested that HKDL should conduct focus group surveys with MA members to collect in-depth feedback with a view to enhancing HKDL's services. In response, Ms Stephanie YOUNG of HKDL advised that HKDL had been collecting feedback from visitors through various channels including surveys, guest relations and call centre to ensure that the Resort would respond to visitors' feedback quickly. She said that HKDL would also communicate with MA members through emails to provide them with the necessary information about the Resort. She further said that HKDL had been organizing focus groups to collect feedback on a periodic basis, and would consider doing it more frequently taking into account Mr TAM's suggestion.

Development and expansion of HKDL

47. The Deputy Chairman enquired if the Administration would review the land use of the vacant site reserved for the possible Phase 2 development of HKDL ("the Phase 2 site") given the latest development of events. He considered that land resources in Hong Kong were scarce, and urged the Administration to release the Phase 2 site for other uses as soon as possible if HKDL was not going to take down the Phase 2 site for further development. Furthermore, he anticipated that the Phase 2 development of HKDL would involve a substantial amount of the Government's investment. He thus sought the Administration's views in this regard. In response, SCED said that in relation to HKDL's existing right to take down the Phase 2 site which could be extended subject to certain conditions under the current mechanism (e.g. reaching the target park attendance of 8-10 million after 2025), the Government was currently in discussion with TWDC, and no further disclosure could be made at the current juncture.

48. The Deputy Chairman noted SCED's views expressed previously when seeking funding for Ocean Park that the global pandemic had catastrophic impact on notably tourism and aviation and that there was intensifying regional competition from other theme parks. He enquired about the Administration's strategies in handling the situation if such views also applied to HKDL.

49. Ms Starry LEE was of the view that HKDL and Ocean Park, both affected by unique situations including the social incidents and the COVID-19 pandemic, would require new thinking to drive their growth. She said that given the intensifying regional competition, it would be difficult to accommodate two theme parks in a small city like Hong Kong. She thus urged the Administration to consider the positioning of the two theme parks in a holistic manner.

50. SCED advised that while the business conditions of Ocean Park and HKDL were different, both of them needed to keep making investments and enhancements to stay competitive amid global competition. To sustain business growth, theme parks should review their investments in the long run, formulate appropriate measures in marketing and operation, as well as controlling costs. He pointed out that the Plan, funding arrangements of which were approved by the Finance Committee of the Legislative Council in 2017, allowed HKDL to enhance its attractions and offerings with a view to attracting more visitors. He further advised that due to the travel restrictions imposed by different countries in view of COVID-19, the global tourism scene might not be able to return to the previous outlook within a short period of time. In this regard, the Hong Kong Tourism Board's current strategies in promoting domestic tourism might bring new opportunities to the travel trade.

51. Ms Starry LEE was of the opinion that HKDL had not been doing as much as Ocean Park in delivering its corporate social responsibility. She suggested that HKDL should offer free admission to local elderly guests so that more families could enjoy vacation at HKDL. In addition, Mr YIU Si-wing asked if HKDL would provide any concessionary offers to Hong Kong citizens and the travel trade after its re-opening in mid-June 2020. Ms Stephanie YOUNG of HKDL advised that HKDL offered park admission tickets at \$100 for elderly guests, and the park also offered free admission tickets to elderly people through non-governmental organizations. She remarked that HKDL's contribution to society mainly focused on families and children in need. For example, HKDL provided over 100 000 free theme park admission tickets to underprivileged families every year, made donations to Make-A-Wish foundation to help children who were diagnosed with a critical illness, and donated food to people in need through Foodlink.

IV. Any other business

52. There being no other business, the meeting ended at 12:46 pm.

Council Business Division 4
Legislative Council Secretariat
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