

**立法會**  
***Legislative Council***

LC Paper No. CB(1)2492/03-04

(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

**Panel on Financial Affairs**

**Minutes of meeting  
held on Monday, 14 June 2004 at 9:30 am  
in the Chamber of the Legislative Council Building**

**Members present** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)  
Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)  
Hon Kenneth TING Woo-shou, JP  
Hon James TIEN Pei-chun, GBS, JP  
Dr Hon David CHU Yu-lin, JP  
Hon Albert HO Chun-yan  
Dr Hon Eric LI Ka-cheung, GBS, JP  
Hon NG Leung-sing, JP  
Hon James TO Kun-sun  
Hon CHAN Kam-lam, JP  
Hon SIN Chung-kai  
Hon Jasper TSANG Yok-sing, GBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Abraham SHEK Lai-him, JP

**Non-Panel Members :** Hon Fred LI Wah-ming, JP  
**attending** Hon CHAN Yuen-han, JP  
Hon Audrey EU Yuet-mee, SC, JP

**Members absent** : Hon LEE Cheuk-yan  
Dr Hon David LI Kwok-po, GBS, JP  
Hon Bernard CHAN, JP  
Dr Hon Philip WONG Yu-hong, GBS

**Public officers attending** : Agenda Item IV

Mr Henry TANG, GBS, JP  
Financial Secretary

Miss Elley MAO, JP  
Government Economist (Acting)

Agenda Item V

Mr Henry TANG, GBS, JP  
Financial Secretary

Mr Mike ROWSE, JP  
Director-General of Investment Promotion

Miss Shirley YUEN  
Administrative Assistant to Financial Secretary

Ms Ophelia TSANG  
Associate Director-General of Investment Promotion

**Attendance by invitation** : Agenda Item V

Mr James E THOMPSON  
Chairman of Crown Worldwide Holdings Ltd.  
(Former Chairman of American Chamber of Commerce in Hong Kong)

**Clerk in attendance** : Miss Salumi CHAN  
Chief Council Secretary (1)5

**Staff in attendance** : Ms Pauline NG  
Assistant Secretary General 1

Ms Connie SZETO  
Senior Council Secretary (1)4

Ms May LEUNG  
Legislative Assistant

Agenda Item V

Mr KAU Kin-wah  
Assistant Legal Adviser 6

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**I. Confirmation of minutes of meeting**

(LC Paper No. CB(1)2084/03-04 — Minutes of meeting on 2 April 2004)

The minutes of the meeting held on 2 April 2004 were confirmed.

**II. Information papers issued since last meeting**

2. Members noted the following information papers issued since the last regular meeting held on 3 May 2004:

- (a) Progress report on the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries (LC Paper No. CB(1)1779/03-04(01));
- (b) Process Review Panel for the Securities and Futures Commission Annual Report to the Financial Secretary for 2003 (LC Paper No. CB(1)1828/03-04);
- (c) Mandatory Provident Fund Schemes Statistical Digest — March 2004 (LC Paper No. CB(1)1877/03-04); and
- (d) Information note on “Computer Equipment and Services for the 2006 Population By-census” (LC Paper No. CB(1)2076/03-04).

**III. Date of next meeting and items for discussion**

(LC Paper No. CB(1)2083/03-04(01) — List of outstanding items for discussion

LC Paper No. CB(1)2083/03-04(02) — List of follow-up actions)

3. The Chairman informed members that the Administration had proposed the following two items for discussion at the next regular meeting to be held on Monday, 5 July 2004:

- (a) Briefing on the implementation of the Basel New Capital Accord in Hong Kong; and
- (b) Progress of the establishment of a commercial credit reference agency in Hong Kong.

4. On paragraph 3(a) above, members noted that the Hong Kong Monetary Authority (HKMA) would brief the Panel on the new adequacy standards for banks to be issued by the Basel Committee on Banking Supervision and HKMA's plan to implement the new standards in Hong Kong by end of 2006. As regards paragraph 3(b) above, members noted that HKMA would update the Panel on the progress of the establishment of a commercial credit reference agency in Hong Kong.

5. Referring to item 5 of the "List of outstanding items for discussion", Mr James TIEN and Ms Emily LAU enquired about the progress of the Panel's earlier request for the Administration to provide an information paper reporting on the progress of the review of the Companies Ordinance (Cap. 33). The Clerk advised that the Administration had been requested to provide the relevant paper by end of April 2004. Due to the complexity of the issues involved, the Administration had indicated that it needed more time to prepare the paper and would provide it by end of June 2004. Mr TIEN and Ms LAU were concerned whether the Panel would have the opportunity to discuss the subject before the end of the current term in mid-July 2004. As proposed by Ms LAU, members agreed that the subject be placed on the agenda for the regular Panel meeting to be held on 5 July 2004, and that the Secretary for Financial Services and the Treasury be invited to attend the meeting for the item.

6. Regarding the request raised at the Panel meeting on 3 May 2004 for HKMA to provide detailed information on the operating expenses of the Exchange Fund and HKMA in 2003, Ms Emily LAU asked when the information would be available. The Clerk replied that HKMA had provided an interim reply (LC Paper No. CB(1)1950/03-04(02) circulated to members on 28 May 2004) advising that the request would be forwarded to the Governance Subcommittee of the Exchange Fund Advisory Committee for consideration at its meeting in June 2004. The Subcommittee's recommendation would then be considered by the Financial Secretary. Ms LAU requested that HKMA be urged to provide the information as soon as possible. The Chairman instructed the Clerk to follow up the matter with HKMA.

*(Post-meeting note: HKMA's reply to the Clerk on Ms Emily LAU's request was circulated to members vide LC Paper No. CB(1)2303/03-04(01) on 2 July 2004.)*

**IV. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation**

(LC Paper No. CB(1)1973/03-04 — First Quarter Economic Report 2004 and the press release

LC Paper No. CB(1)2083/03-04(03) — Paper provided by the Administration)

Briefing on the latest overall economic situation of Hong Kong

7. At the invitation by the Chairman, the Government Economist (Acting) (GE(Atg)) briefed Members on the latest overall economic situation of Hong Kong, the economic outlook and forecasts for 2004. GE(Atg) highlighted the following points:

- (a) The Hong Kong economy gathered further growth momentum in the first quarter of 2004, continuing the broad-based recovery in the second half of 2003. On a year-on-year comparison, the Gross Domestic Product (GDP) leaped by 6.8% in real terms in the first quarter of 2004. Both exports of goods and services attained remarkable growth of 14.8% and 13.7% in real terms respectively in the first quarter of 2004 over a year earlier, underpinned by thriving offshore trade and further growth in inbound tourism.
- (b) Overall domestic demand continued to pick up in the first quarter of 2004. Private consumption expenditure and overall investment spending surged by 5% and 5.8% in real terms respectively in the first quarter of 2004 over a year earlier.
- (c) Overall labour market conditions continued to improve with the seasonally adjusted unemployment rate fell distinctly from the peak of 8.7% in May - July 2003 to 7.1% in February - April 2004. The underemployment rate likewise declined, from 4.2% to 3.4% between the two periods. The improvement in employment situation for the major occupation categories was widespread with the decrease in unemployment rate most distinct for the 15 - 19 and 20 - 24 age groups. Except for persons with low education, employment situation for all other educational attainment groups had shown improvement.
- (d) The Composite Consumer Price Index (CCPI) still registered a decline of 1.8% in the first quarter of 2004, but was much tapered than the decrease of 2.3% in the fourth quarter of 2003. This trend continued into April, with a year-on-year decline of 1.5% being recorded. The main reasons for the improvement of CCPI were the revival in property

demand, bottoming out of private residential rentals, and rise in prices of some consumer goods.

- (e) Recently, there had been more concerns about the latest developments in the external economic environment on Hong Kong economy. On the recent hike in international crude oil prices, as Hong Kong's oil dependency ratio was not high, the direct curtailing impact on overall domestic demand should be rather insignificant, even though the impact on specific sectors would be larger. The indirect impact would depend mainly on whether the rise in oil prices would dampen demand of Hong Kong's trading partners, thereby curtailing Hong Kong's export performance. At this juncture, it was believed that such impact should not be very significant. As regards possible imminent increase in US interest rates, despite latest US economic data indicated strong growth momentum in the US economy, US inflation rate was still low. As such, it was expected that any interest rate rise in the US was likely to be gradual and at measured pace, and was not expected to pose a severe threat to the global economy and Hong Kong economy. On the stepping up of macroeconomic tightening measures in the Mainland, these measures were mainly targeted at specific sectors with signs of overheating. As imports related to the overheated sectors accounted for only a minor share of Hong Kong's total exports of goods to the Mainland, the Mainland's economic tightening policy should not have a serious damaging effect on Hong Kong's overall export performance. On the other hand, latest indicators suggested that these measures had begun to take effect. Currently, the market generally believed that the risk of a "hard landing" in the Mainland economy was rather low.
- (f) As regards economic outlook and forecasts for the rest of 2004, notwithstanding that there were more uncertainties emerging in the external environment lately, the general tone for the economy was still very positive. Exports of goods and services were expected to continue to hold up well. Overall domestic demand should also pick up further. The forecast GDP growth rate in real terms for 2004 was kept unchanged at 6% and the forecast rate of change in CCPI for 2004 was kept at -1%.

## Discussion

### *Issuance of Government bonds*

8. Mr SIN Chung-kai indicated the support of Legislative Council (LegCo) Members of the Democratic Party for the issuance of \$20 billion Government bonds in 2004. In view of the imminent rise in US interest rates, however, Mr SIN was concerned whether it was the right time for the issuance of Government bonds. The Financial Secretary (FS) advised that the Government bonds programme would be

influenced by a number of factors including movements in US interest rates, market conditions and market demand. He said that the Administration together with the arrangers would closely monitor the developments and further discussed the details of the programme. It remained the target of the Administration to launch the offer before mid-July 2004.

9. Mr SIN Chung-kai asked whether the Administration would consider issuing the \$20 billion Government bonds by phases. FS advised that the arrangers had drawn up different proposals and a decision on the matter had yet to be made. He added that as revealed from the exercise for the securitization of future revenue from toll tunnels and bridges launched in April 2004, there was strong retail interest in securitized bonds of short-term maturity, while institutional investors were in favour of bonds with longer-term maturity. Given the recent improvements in the economy, FS said that he was cautiously optimistic about Hong Kong's economic outlook and there would be good market response to the Government bonds.

*Addressing the unemployment problem*

10. Ms Emily LAU noted that despite improvement in the overall employment situation in recent months, the unemployment rates for workers with lower secondary schooling, primary schooling or no schooling were still above 10% (Chart 8 of the paper provided by the Administration). She expressed concern about the high unemployment rates for workers with low educational attainment and urged the Administration to devise concrete measures to address the problem.

11. Echoing Ms Emily LAU's concern, Miss CHAN Yuen-han expressed concern that the unemployment rate for persons aged 60 or over had increased in the period from February to April 2004 while that for persons aged 30-59 had shown little improvement (Chart 8 of the paper provided by the Administration). She pointed out that Hong Kong was facing a structural unemployment problem, but was disappointed that the Administration had not introduced concrete measures to tackle the problem. Miss CHAN called on the Administration to capitalize on the opportunities of the Closer Economic Partnership Arrangement (CEPA) opened to Hong Kong to attract external investment and to encourage business operations already moved to the Mainland to move back to Hong Kong. In this connection, Miss CHAN expressed dissatisfaction towards the recent study tour of the business community to North East China led by FS, which in her view might divert investment from Hong Kong and further aggravate the unemployment problem. Miss CHAN further urged the Administration to establish a high-level committee comprising representatives of the Government, business community and labour unions in order to map out the strategies and devise concrete measures for tackling the structural unemployment problem and promoting long-term economic development of Hong Kong.

12. Given the advent of globalization in the world economy and that Hong Kong was undergoing economic restructuring, FS said that the Government was aware of

the trend of job losses for non-professional workers and the structural problem of high unemployment rates for aged workers and workers with low-education attainment during the process. FS stressed that the Government was committed to tackling the structural unemployment problem at various fronts, including the implementation of the \$1 billion employment programme to assist workers to find jobs and to help them upgrade themselves and gain new skills to meet the needs of the knowledge-based economy, and the stepping up of enforcement actions against illegal employment. The Government had also established the Economic and Employment Council to co-ordinate efforts of the relevant stakeholders for drawing up appropriate strategies and devise concrete measures to tackle the unemployment problem. FS stressed the importance for relevant stakeholders to keep an open mind and work in collaboration towards the common goal of creating more jobs and tackling the unemployment problem.

13. On the role of the Government in addressing the unemployment problem, FS stressed that the Administration should act as the facilitator of the market to create a favourable environment and provide the needed infrastructure for business, to promote investments, to facilitate market's operation and development, while the private sector would be the main provider of jobs. As regards Administration's efforts in facilitating the market, FS advised that enhancement in economic ties with the Mainland, implementation of CEPA and the "individual visit" scheme had benefited Hong Kong economy. Since the implementation of the "individual visit" scheme in mid-2003, it had been expanded to cover a number of Mainland cities. So far, over two million Mainland tourists had visited Hong Kong under the scheme with average spending of over \$6,000 per visitor. On the concern over the recent study tour to North East China, FS explained that the purpose of the tour was to explore new business opportunities for Hong Kong enterprises and promote Hong Kong to Mainland companies. The Administration believed that robust growth in the tourism sector and efforts to boost foreign investments would benefit Hong Kong economy and create jobs in the long run.

14. Mr Albert HO also expressed concern about the unemployment problem. He enquired whether the Administration had any target for reducing the unemployment rate and the estimated timeframe for achieving the target. In response, FS pointed out that given the positive outlook in the economy, he believed that there was room for the downward adjustment of the unemployment rate. He envisaged that the rate might fall below 7% within 2004.

15. In order to monitor the improvement in the unemployment situation for persons with tertiary education and above, Mr James TIEN opined that the Administration should compile information on whether the persons concerned were employed to work in Hong Kong or in the Mainland. FS responded that the Administration's statistics showed that majority of graduates from tertiary institutions were working in Hong Kong.

*Unemployment problem in the construction sector*



16. Referring to the unemployment rate of 17.9% for the construction sector and the fact that building and construction activities remained weak in overall terms in the first quarter of 2004 (Chart 7 of the paper provided by the Administration and paragraphs 3.19 to 3.25 of the First Quarter Economic Report 2004), Mr Abraham SHEK expressed grave concern over the lack of improvement in the employment situation for the construction sector. He asked whether the Administration would consider investing more on public infrastructure, expediting implementation of the Public-Private-Partnership (PPP) model, and encouraging the development of housing projects.

17. FS pointed out that the unemployment rate for the construction sector actually declined from 19.3% in May - July 2003 to 17.7% in February - April in 2004. He agreed that the current unemployment rate for the construction sector was on the high side. However, with the picking up in the property market, he expected that developers would be keen to undertake more housing projects. This was reflected by rising interest of developers in applying land from the List of Sites for Sale by Application and the steady increase in the number of planned developments since the second half of 2003. As regards the suggestion of adopting PPP model for taking forward infrastructure projects, FS advised that the Administration supported the model in principle for enhancing the cost-effectiveness of provision of infrastructure and would explore the feasibility of the suggestion when opportunities arose.

18. Mr Abraham SHEK suggested that a working group comprising representatives of the Administration and of the construction industry be established to study the feasibility of adopting PPP model, such as for the implementation of the outstanding capital works projects of the former Provisional Urban Council and Provisional Regional Council. FS advised that it might not be appropriate to implement each of those outstanding projects through PPP model.

#### *Unemployment problem for female workers*

19. Pointing out that there was an inadequate supply of local domestic helpers, Mr NG Leung-sing enquired about measures for helping middle-aged female workers to find jobs. In response, FS said that in order to address the problem of mismatch between the demand and supply of local domestic helpers, training and re-training bodies had been organizing relevant courses and offering placement services to assist middle-aged female workers to take up employment in the field.

#### *Impact of political climate on Hong Kong's economy*

20. Given the concern expressed by international credit rating agencies that the current political climate of Hong Kong might adversely affect its ratings, Ms Emily LAU sought FS's views on the impact of the contentious political issues, such as the constitutional reform, and other issues, such as the rally on 1 July 2004 and LegCo election in September 2004, on Hong Kong's economy and stability. In

this connection, Mr NG Leung-sing expressed concern about the impact of the rally on 1 July 2004 on Hong Kong's economy and stability.

21. On the impact of political issues on Hong Kong's economy, FS said that a harmonious and stable society would provide the necessary economic environment conducive to sustainable growth and development of the society and would also be attractive to foreign investment. He emphasized that the rule of law, equality, openness, diversified and pluralistic nature of Hong Kong, the respect for freedom and rights for individual, were among the essential core values on which Hong Kong thrived. FS assured members that the Government would strive to safeguard these values. He stressed that different sectors of the society should keep an open mind, appreciate and understand others' situations, as well as make appropriate compromises where necessary so as to create a "win-win" situation for Hong Kong.

22. FS further pointed out that the rally took place on 1 July 2003 might be partly caused by the public dissatisfaction about the weak economy at that time. Although the economy had improved recently, the public was free to express their views and aspirations to the Government. FS stressed that expression of views in a peaceful and orderly manner, and rational and constructive discussion on political issues would not harm Hong Kong's international image or undermine the confidence of overseas investors. Constructive advice and suggestions would help improving governance of Hong Kong. As regards development of constitutional reforms in Hong Kong, FS advised that the three-member Constitutional Development Task Force led by the Chief Secretary for Administration was studying different proposals in taking forward the subject and the Task Force welcomed views from various sectors of the community.

#### *Future economic development of Hong Kong*

23. Mr Albert HO cautioned that despite recent recovery in Hong Kong's economy, the morale of the general public was low because most of them had not benefited from the economic recovery. Moreover, the trend of moving the local capital and industries, such as the manufacturing and service industries, to the Mainland still continued. Mr HO was concerned what the Invest Hong Kong (InvestHK) had achieved in promoting investment in Hong Kong.

24. FS pointed out that it took time for the general public to be benefited from the economic recovery. FS re-iterated that he was cautiously optimistic about Hong Kong's economic outlook. The Government estimated that GDP trend growth rate would be maintained at 3.8% in the medium term. On Hong Kong's economic growth, FS affirmed the contribution made by local industries. He praised the efforts of the Hong Kong Trade Development Council in assisting the development of local industries and enterprises. As regards the results of InvestHK's efforts in promoting investment in Hong Kong, FS undertook to provide the relevant statistics for members' reference after the meeting.

(*Post-meeting note:* The Administration's reply was circulated to members vide LC Paper No. CB(1)2468/03-04(01) on 10 August 2004.)

25. Mr CHAN Kam-lam considered that the fast-growing economy of the Mainland and the enhanced economic integration between Hong Kong and the Mainland would offer many opportunities for Hong Kong. Mr CHAN enquired about the measures for attracting Mainland investment to Hong Kong. He also enquired about whether the Administration would consider expanding the "individual scheme" to cover the entire Pan-Pearl River Delta (Pan-PRD) region; the progress of streamlining customs clearance at the boarder control points; and the proposed Qualified Domestic Institutional Investors (QDII) scheme, which would allow direct Mainland investments in Hong Kong. Mr NG Leung-sing concurred that the Administration should continue to monitor the benefits brought about by the "individual visit" scheme to Hong Kong's economy.

26. In response, FS said that the Pan-PRD Regional Co-operation and Development Forum was a milestone in fostering closer economic links between Hong Kong and the Mainland. Given that each of the nine Mainland provinces and the two special administrative regions (Hong Kong and Macau) concerned had its unique competitive advantages, there would be enormous scope for co-operation among them to benefit and complement one another with a view to building up a strong economic zone and enhancing the region's overall competitiveness. FS added that the Administration would strengthen investment promotion in the Mainland to attract Mainland enterprises to invest in Hong Kong. On the progress of QDII scheme, FS understood that the Central People's Government had approved the scheme in principle and that details were being worked out. The Administration would liaise closely with the Mainland authorities concerned.

27. In respect of development of the "individual visit" scheme, FS assured members that both the Administration and the Mainland authorities had been closely monitoring implementation of the scheme and were positive towards its further expansion to cover more Mainland cities and provinces. Regarding efforts to expedite the flow of people and goods between Hong Kong and the Mainland at the boarder control points, FS advised that it remained the Administration's plan to provide "one-stop customs clearance service" at the boarder check point at Lok Mau Chau upon the commissioning of the Hong Kong-Shenzhen Western Corridor in end 2005.

28. Mr Kenneth TING considered that the Administration should expedite implementation of "one-stop customs clearance service" at the boarder control points. Referring to Chart 4 of the paper provided by the Administration, Mr TING was concerned about the double-digit declines in the number of incoming visitors from Japan in recent months and enquired about the causes.

29. FS said that the recent decline in the number of Japanese tourists visiting Hong Kong might due to concerns about the possible return of the Severe Acute

Respiratory Syndrome and bird influenza in Hong Kong. As regards whether the decline was the result of decrease in Hong Kong's attractiveness to tourists vis-a-vis the Mainland, FS said that as tourists visiting Hong Kong and those visiting the Mainland might have different purposes, it would be inappropriate to compare the tourist attractions of the two places.

30. Responding to Mr Kenneth TING's concern about recent rises in prices on food products from the Mainland, FS said that the prices of Mainland food products were still low as compared with local food products. He believed that the market would respond rationally.

*Impact of Mainland macroeconomic measures on Hong Kong's economy*

31. Mr James TIEN pointed out that implementation of macroeconomic measures in the Mainland might curb credit growth, resulting in a situation where Mainland enterprises would raise capital in Hong Kong's securities market for their business development. He was concerned about the impact of such capital formation activities on Hong Kong's economy.

32. FS pointed out that the capital formation activities of Mainland enterprises in Hong Kong had provided many business opportunities for Hong Kong and benefited the economy, as well as reinforced Hong Kong's status as an international financial centre. He remarked that while the success of Mainland's macroeconomic measures would be influenced by a number of factors, there was evidence that the measures had begun to take effect. It was likely that the Mainland economy would achieve a "soft landing" and this in turn would be beneficial to Hong Kong's economy. The international community also generally believed that steady and sustained economic growth in China would be beneficial to the global economy at large.

**V. Hong Kong Harbour Fest**

(LC Paper No. CB(1)2083/03-04(04) — Background brief on the "Hong Kong Harbour Fest" prepared by the Legislative Council Secretariat

LC Paper No. CB(1)2083/03-04(05) — Paper on "Hong Kong Harbour Fest" provided by the Administration

LC Paper No. CB(1)1491/03-04(01) — Report on the Progress of the Campaign to Re-launch Hong Kong's Economy with the audited accounts of the Hong Kong Harbour Fest

(Tabled at the Council meeting on — Chapter 4 of the Report of the  
21 April 2004) Director of Audit No. 42 — Hong  
Kong Harbour Fest

LC Paper No. CB(1)1853/03-04 — Report of the Independent Panel of  
Inquiry on the Harbour Fest

LC Paper No. CB(1)2083/03-04(06) — Press release on “Chief Executive’s  
statement on Harbour Fest inquiry  
report” issued by the  
Administration on 17 May 2004)

33. The Chairman welcomed the Financial Secretary (FS), Director-General of Investment Promotion (DGIP), and other representatives of the Administration, and Mr James THOMPSON, former Chairman of the American Chamber of Commerce in Hong Kong (AmCham), to the meeting for further discussion with the Panel on the Hong Kong Harbour Fest (the Festival). He reminded Mr THOMPSON that when addressing the Panel, he would not be covered by the protection and immunity provided under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382).

#### Presentation by the Administration

34. FS advised that the Administration had studied carefully the Report of the Director of Audit (the Audit Report) and the Report of the Independent Panel of Inquiry on the Harbour Fest (Report of Panel of Inquiry). In the light of the observations and recommendations contained in the reports, the Administration was working on a new circular on the kind of due process Controlling Officers should observe before committing government funds on specific projects. The Administration would also consider organizing more programmes on crisis communication and experience sharing sessions for senior officials. In addition, the Administration would consider whether any further action would need to be taken upon receipt of the Report of the Public Accounts Committee (PAC) of the Legislative Council (LegCo) on the Festival to be released in due course. On the other hand, the Administration had referred the Report of Panel of Inquiry to the Police for further follow-up action as deemed necessary. The Administration also noted that the Independent Commission Against Corruption (ICAC) was conducting a criminal investigation on the Festival. The Administration would cooperate fully with these law enforcement agencies.

35. DGIP supplemented that the Administration had cooperated fully with the Audit Commission, Panel of Inquiry and PAC, and made available all records on the Festival to facilitate their investigation. The Administration would also cooperate with the Police and ICAC, and answer any questions relating to the Festival raised by members of the Panel on Financial Affairs.

Presentation by Mr James THOMPSON

36. Mr James THOMPSON said that while one of the major concerns about the Festival was its accounts, the results of the independent audit on the books of Red Canvas Limited (the special purpose vehicle appointed by AmCham to organize and implement the Festival) indicated that the company had a clean account. Mr THOMPSON also pointed out that he had cooperated fully with the Audit Commission and Panel of Inquiry in their investigation, and had provided them with all the relevant records. He would also cooperate with ICAC to facilitate its investigation.

Discussion

37. Given that PAC had not yet completed its inquiry on the Festival, the Chairman suggested that members might, as far as practicable, focus their questions on the aspects which had not been studied by PAC, namely, the organizing ability of AmCham, project organization and implementation by AmCham (except the handling of the Rolling Stones issue), audited accounts of the project, and production and broadcasting of the one-hour television (TV) special on the highlights of the Festival.

*Television special on the Festival*

38. Mr Fred LI noted from the information paper provided by the Administration (LC Paper No. CB(1)2083/0304(05)) that the TV special was broadcast in the United States (US) on the MTV2 and MTV channels in January and February 2004 respectively, and on the Star World International and Star World India channels in May 2004. According to the same paper, the third airing of the programme on the MTV channel had only achieved a viewership rating of 0.2 million households in the US, representing about 314 000 viewers, and the ratings for MTV2 had not been released to the public. Mr LI pointed out that the information was very different from that provided to the Panel at previous meetings. He recalled that the Administration had previously advised the Panel that the TV special would be broadcast nationwide in US during the Christmas peak viewing season in 2003. Referring to paragraph 44 of the minutes of the Panel meeting held on 15 November 2003, Mr LI further pointed out that DGIP had said that “AmCham had already secured broadcast for the one-hour TV special by the ABC channel in US, which had access to 80 million TV homes with a potential audience of 100 to 150 million viewers. Moreover, AmCham was discussing with another interested network in US for broadcasting the programme. In addition, the programme would be available to other TV networks free of charge. The target was to bring the programme to over 0.5 billion viewers worldwide.” Mr LI sought explanation on the discrepancies between the target and actual networks for broadcasting the TV special, and the discrepancies between the target and actual number of viewers reached.

39. Mr Henry WU considered that the TV special should have been broadcast in overseas market immediately after the completion of the Festival in November 2003 so as to showcase Hong Kong as a vibrant international city and to show that Hong Kong had recovered from the Severe Acute Respiratory Syndrome (SARS). Mr CHAN Kam-lam also expressed doubt about the effectiveness of broadcasting the TV special at this stage.

40. On the networks for broadcasting the TV special, DGIP said that his understanding was that at the time of the Panel meeting on 15 November 2003, there was an agreement between AmCham and the ABC Family, but not the ABC Network, to broadcast the programme in US. After considering the respective advantages of broadcasting the programme on the MTV network and ABC Family, AmCham had subsequently decided to broadcast the programme on the MTV network. Mr James THOMPSON supplemented that there was a verbal agreement between Mr Jon NIERMANN, a member of AmCham's organizing committee for the Festival and the then President of Walt Disney (Asia Pacific) Limited, with the senior management of Disney in US to broadcast the TV special on ABC Family. Mr THOMPSON explained that as ABC Family only agreed to broadcast the programme once, but the MTV network would broadcast it for three times in US, AmCham finally decided to broadcast the programme on the MTV network.

41. As regards the timing for broadcasting the TV special, DGIP said that it was the original aim of AmCham to broadcast the programme during the Christmas period in 2003. The delay was caused by slippage in the production of the video and difficulties in securing slots with TV networks. In this connection, Mr James THOMPSON pointed out that the broadcasting schedules were determined by the TV networks concerned, and not by AmCham.

42. Mr Fred LI expressed concern over the appropriateness of broadcasting the TV special on the MTV and MTV2 channels, which were music channels mainly catered for the young people. These channels had different audience reach and audience profile from the ABC channels. Being disappointed about the low viewership rates achieved, Mr LI queried whether the Administration had misled Members in this regard and whether the Administration had ensured the cost-effectiveness of the TV special, which involved a production cost of over \$7 million, in promoting Hong Kong to overseas markets. He stressed that where public funds were involved, it was of paramount importance that all parties concerned should be vigilant in exercising control over the use of tax-payers' money and in achieving the objectives of the project.

43. DGIP advised that the ideal situation was to broadcast the TV special on ABC Network, which had a wide range of viewers, so that the objective of sending out the messages that Hong Kong had recovered from SARS and its economic activities had returned to normal would be best achieved. DGIP also pointed out that as recorded in paragraph 44 of the minutes of the Panel meeting on 15 November 2003, what he had advised the Panel was that the ABC channel in US "had access to 80 million TV

homes with a potential audience of 100 to 150 million viewers”. In fact, whether the TV special could reach the potential audience depended on the choice of the viewers. DGIP said that he shared members’ disappointment about the low viewership rates for the TV special. It was the Administration’s hope that the programme would reach many people. In this connection, Mr Fred LI pointed out that at the Panel meeting on 11 October 2003, Members had been told that the TV special would reach more than 100 million viewers in US and about 500 million viewers in other countries (paragraph 21 of the minutes of the Panel meeting on 11 October 2003). While admitting that it was an ambitious target to broadcast the programme to over 500 million viewers worldwide, DGIP considered that the target could be achieved if the programme was to be broadcast in more overseas markets.

44. Mr James THOMPSON pointed out that the MTV and MTV2 channels did not only cater for the young people. A wide range of programmes broadcast on these channels was able to attract a diversity of audience. It was envisaged that young people in other countries would visit Hong Kong and encourage their families to come as well. The same applied to the Star World channels. Mr THOMPSON advised that the TV special had been broadcast on the Star World International channel twice with coverage of over 30 markets in Asia and the Middle East, and on the Star World India channel three times in May 2004. Moreover, AmCham had been discussing with InvestHK, Information Services Department, Radio Television Hong Kong, and Hong Kong Tourism Board (HKTb) to explore the possibility of broadcasting the TV special in other major overseas markets, such as countries in Europe and South America, and Australia etc. While it was difficult to predict the final viewership rates, Mr THOMPSON believed that the purpose of promoting Hong Kong had already been achieved, as the TV special had so far been broadcast in over 30 countries.

#### *Fees for performing artists in the Festival*

45. Mr Fred LI pointed out that at the Panel meeting on 15 November 2003, Members had been told that due to the confidentiality clauses in the contracts signed between AmCham and its agents and/or between the latter and the artists concerned, AmCham could not disclose the details of the contracts, including the fees paid to individual artists. However, he noted that Red Canvas Limited had provided the full set of the contracts to the Panel of Inquiry and that other than the contracts with the Rolling Stones, there were no confidentiality clauses in the other artist contracts (paragraph 3.65 of the Report of Panel of Inquiry). Mr LI queried whether Members had been misled.

46. In response, DGIP remarked that there was a confidentiality clause in the Talent Acquisition Agreement (TAA) signed between Red Canvas Limited and East Art International Limited (the overall co-ordinator appointed for the acquisition of western talents for the Festival) requiring confidentiality on its contents and any agreement entered into pursuant to it. However, except for the contracts with the Rolling Stones, there was no confidentiality clause in other artists’ contracts



themselves. The Panel of Inquiry had taken the view that TAA was an internal agreement and should not prevail over its right of access to individual artist contracts. Due to the persistence of the Panel of Inquiry, Red Canvas Limited had subsequently provided the contracts.

47. As regards fees for the international artists performed in various concerts of the Festival, Mr Fred LI noted the observation of the Panel of Inquiry that “...save for Michelle Branch and the Rolling Stones, the other artists were paid considerably higher than their listed US performance rates for performing at the Harbour Fest.” (paragraph 3.85 of the Report of Panel of Inquiry). For example, the artist fees for Prince and Neil Young to perform in the Festival (US\$1,300,000 and US\$800,000 respectively) were higher than their listed US performance rates by US\$800,000 and US\$700,000 respectively (Annex 7 to the Report of Panel of Inquiry). Mr LI queried why AmCham had stated that the artist fees were in line with the market levels.

48. Mr James THOMPSON said that while he respected the work of the Panel of Inquiry, he considered it inappropriate for the Panel of Inquiry to compare the fees paid to the international artists for performing at the Festival with the fees listed in an entertainment industry website in US. In his opinion, the prices quoted in the website were incredible. Mr THOMPSON pointed out that there were many factors which would affect the level of artist fees outside US, for example, whether the artists concerned were on tour in the region of their potential new engagement and whether the costs on travel and hotel accommodation etc. were included in the rates. In general, fees would be lower if an artist was on tour in the region of his potential new engagement. On the artist fee paid to Neil Young, Mr THOMPSON said that as the artist was a legendary figure, it would be impossible to invite him to perform in the Festival with just US\$100,000. Moreover, as Neil Young was not on tour in the region when the talent co-ordinator invited him to perform in the Festival, the benefit of lower fees was therefore not realized. As regards the fee paid to Prince, Mr THOMPSON advised that the contract with Prince was different from those with other artists in the sense that a number of items, such as taxes and hotel accommodation, were paid by Prince. After the Festival, Prince was on tour to Australia and sources revealed that the top-price ticket for his shows in Australia amounted to Aus\$2,000. Therefore, it would be impossible to engage Prince to perform in the Festival with the low amount of fee indicated in the US website as quoted in the Report of Panel of Inquiry. Mr THOMPSON stressed that he stood by his view that the artist fees were in line with the market levels.

49. Mr James THOMPSON rejected the claim of the Panel of Inquiry that AmCham’s organizing committee for the Festival had failed to get sufficient buy-in from entertainment professional organizations. He pointed out that the majority of organizations in the field had been involved in the Festival. Mr THOMPSON also disagreed with the observation of the Panel of Inquiry that contractors engaged in the Festival had over-charged for their services. He considered that the Panel of Inquiry should have asked the contractors concerned to confirm whether that was the case.

*Audited accounts of the Festival*

50. Referring to paragraph 3.166 of the Report of Panel of Inquiry, Dr Eric LI pointed out that the Director of Audit had not been given access to the books of account and detailed financial records of the Red Canvas Limited. Despite the queries raised by the Panel of Inquiry on the expenditure on the Festival, it seemed that some of the queries were not fully answered. As criminal investigations conducted by ICAC and the Police on the Festival would not cover the value for money aspects, Dr LI considered that it might be necessary for the Director of Audit to examine the accounts of the Red Canvas Limited in detail so as to address the public concern. In this connection, he urged Mr James THOMPSON to cooperate with the Director of Audit to facilitate his examination of the accounts.

51. In response, Mr James THOMPSON re-iterated that the accounts of Red Canvas Limited had been audited by an independent certified auditor, and had also been studied carefully by the Panel of Inquiry comprising a member who was a reputable professional accountant. AmCham had responded to enquiries in relation to the accounts raised by the Panel of Inquiry completely and thoroughly. The accounts and related documents had been passed to ICAC. Mr THOMPSON said that during the past year, staff of his own company had already been tied up with work related to the accounts. The request of an extended audit on the accounts would be unreasonable and would add to the workload of his staff. Whilst appreciating the concern of Members, Mr THOMPSON believed that there would not be any outstanding issues of substance on the accounts given that they had been subject to vigorous examination by the independent auditor and the Panel of Inquiry. In his opinion, there would not be accounts that could be absolutely perfect. He considered it inappropriate to pursue with a further audit on the accounts of the Festival.

*AmCham's role and responsibilities*

52. Mr SIN Chung-kai pointed out that the results of the Festival had fallen short of public expectation. The \$100 million spent by the Government had not achieved the objectives of promoting Hong Kong but instead, had brought about a lot of criticisms. Noting that FS had apologized to the public in respect of the Festival, Mr SIN asked whether Mr James THOMPSON would also make an apology to the public for the failure of the Festival.

53. In response, Mr James THOMPSON clarified that among the Government sponsorship fee of \$100 million for the Festival, about \$12 million had been returned to the Government in the form of income taxes by the artists and rental for the Tamar site. In other words, the net Government sponsorship for the project was about \$88 million. As indicated in the initial budget as at early September 2003, the Government sponsorship was estimated to be in the region of \$80 million. The difference of \$8 million was the result of lack of sponsorship from airlines and hotels. Mr THOMPSON further pointed out that AmCham estimated that about \$65 million (inclusive of the taxes and venue fees mentioned above) of the total expenditure of the

Festival was recycled into the Hong Kong economy mainly for supporting local businesses which were involved in the Festival, such as hotels. He considered that this was an important contribution to the services and supply companies in Hong Kong at the time when their businesses were hit by SARS. Mr THOMPSON re-iterated that the TV special had been seen by many people and would continue to be broadcast in various overseas markets. Some of the programme highlights would be used by the Hong Kong Trade Development Council and HKTb in promoting Hong Kong. As such, the TV special had contributed in promoting Hong Kong and would bring about on-going benefits to the economy.

54. Mr James THOMPSON also stressed that despite the various criticisms from the media, public and LegCo, he considered that he himself and AmCham had done a great job for Hong Kong. The Festival had brought together a huge audience that could ever been accommodated in any concert venue in Hong Kong. The average attendance of 8 000 audience per concert was much higher than the average of 3 200 audience attained for western concerts held in Hong Kong over the last 12 months. Mr THOMPSON appreciated the hard work and efforts of all volunteers involved in the Festival. He felt sorry that Hong Kong people did not appreciate these efforts.

55. Noting Mr James THOMPSON's response, Mr Henry WU said that it appeared that Mr THOMPSON did not consider the Festival a failure. Mr James THOMPSON drew members' attention to the positive comments on the Festival made by the Panel of Inquiry in its Report: the good concept of the Festival was a powerful one worthy of Government support (paragraph 10 of the Executive Summary of the Report); the stage setting, venue and sound systems at the Festival provided an opportunity for pop music concerts in Hong Kong to reach new standards of excellence and Hong Kong was able to demonstrate to the world that it could produce the highest standards of outdoor concert entertainment (paragraph 11 of the Executive Summary of the Report); the Festival could be seen as a moderate success (Epilogue of the Report); and the majority of individuals whom the Panel of Inquiry had met or who had written to the Panel of Inquiry were supportive of the proposition that a similar festival of pop music should become an annual event of Hong Kong (Epilogue of the Report).

56. Mr James THOMPSON said that he was proud of the Festival and the work AmCham had done in bringing forward such a large-scale event within three months. In the view of entertainment professionals, it would normally take nine to 12 months to organize such a large-scale project. He pointed out that people who had attended the concerts enjoyed themselves immensely. Quoting the Hong Kong Arts Festival for comparison, Mr THOMPSON added that while the performing artists for the Arts Festival were normally booked three years in advance, AmCham was required to arrange the line-up for the concerts in the Festival within a much shorter timeframe. Nevertheless, AmCham was able to meet its contractual requirements of delivering a total of 16 concerts and producing the TV special.

57. Being surprised to note that Mr James THOMPSON was proud of the Festival, Mr Henry WU pointed out that he and members of the public were not proud of it.

58. On behalf of LegCo Members of the Liberal Party, Mr James TIEN expressed great disappointment about the Festival. While appreciating the goodwill on the part of AmCham, Mr TIEN pointed out that there were a number of problems related to the implementation and monitoring of the Festival. For example, the General Chamber of Commerce in Hong Kong had expressed concern about the chaotic ticketing arrangement of the Festival, in particular, that majority of the top-price tickets of the concerts had been reserved by AmCham. Given the problems identified and the public query about the cost-effectiveness of the Festival, Mr TIEN was disappointed to note Mr James THOMPSON's remarks that he was proud of the Festival.

59. In response, Mr James THOMPSON re-iterated that despite the various criticisms on the Festival, he was proud that AmCham had accomplished such a difficult task within a short timeframe. He was proud of the people and volunteers who had contributed to the Festival. While recognizing the hard work of AmCham and the volunteers involved in the project, Mr James TIEN pointed out that it was a matter of fact that the Festival was not a success. On behalf of LegCo Members of the Liberal Party, he expressed regret about the Festival.

60. While appreciating the goodwill on the part of AmCham in implementing the Festival, Dr Eric LI stressed that this should not replace due diligence and prudence on the part of the organizer, in particular for those projects where huge Government funds were involved. He pointed out that the voluntary associations and subsidized organizations in Hong Kong were all required to follow established rules and observe their obligations in carrying out Government-funded projects so as to ensure the cost-effectiveness of the projects. FS said that the Administration recognized the contribution of the voluntary associations and subsidized organizations to the community.

#### *Government's role and responsibilities*

61. Whilst appreciating the goodwill on the part of AmCham in organizing the Festival, Mr CHAN Kam-lam pointed out that a number of problems had been revealed by the Audit Report and the Report of Panel of Inquiry, including inexperience of the organizers, inadequate monitoring by InvestHK, and DGIP's failure to adequately discharge the role of the Controlling Officer in respect of the \$100 million public funds for the Festival. He sought the Administration's views on these findings.

62. FS said that the Administration also appreciated the goodwill on the part of AmCham in organizing the Festival and the contributions of the volunteers. The Administration however agreed that the complexity of organizing the Festival within such a tight timeframe might have been under-estimated and its benefits

over-estimated, and therefore the project had not achieved the expected results. As regards the roles of InvestHK and DGIP in the Festival, FS advised that the Government's role in the Festival was that of a sponsor. However, given the huge amount of \$100 million Government sponsorship involved in the project, InvestHK had performed a more proactive role than a sponsor in normal cases.

63. DGIP supplemented that the Economic Relaunch Working Group (ERWG) was impressed by the sincerity and enthusiasm of AmCham and the creativity of the proposal. He admitted that there were areas that ERWG could have done better, including evaluation of the proposal and evaluation of AmCham's ability in implementing such a large-scale project.

64. On the roles of InvestHK and DGIP, DGIP stressed that he was the Controlling Officer at two different levels. At the first level, he was the Controlling Officer for the \$1 billion Campaign to Relaunch Hong Kong's Economy (the Campaign). He and his colleagues in InvestHK were responsible for devising the procedures and mechanism for gathering and evaluating various economic relaunch proposals, as well as servicing the Economic Relaunch Strategy Group and ERWG. ERWG had finally approved 84 of the 95 proposals received, including the Festival. In his view, InvestHK had performed reasonably well in this regard. DGIP further advised that at the second level, he was the Controlling Officer of InvestHK, which was assigned as the subject department in respect of the Festival, but he was not the Controlling Officer for the Festival. Referring to the minutes of the ERWG meeting held on 12 July 2003, DGIP pointed out that the Chairman of ERWG (the then FS) had clearly indicated that the Government would act as the sponsor only and AmCham had to plan, organize and implement the whole event. That was a clear and explicit directive to InvestHK, the subject department. In this connection, InvestHK had acted as a sponsor for a number of projects before and had a clear understanding of the concept of sponsorship. Recognizing the immense scale of the project, InvestHK had increased its involvement to an extent much more than in any other projects it had sponsored. DGIP admitted that InvestHK was too slow in realizing the public expectation that InvestHK should have taken up the role of a "co-organizer" in the Festival. If InvestHK had realized this earlier, it would have pointed out that as an investment promotion agency, the department could not take up the role of a "co-organizer" of the Festival in the absence of relevant experience and necessary capabilities. In such case, it would be necessary to strengthen the department's resources, or the Administration should appoint another department as the subject department for the Festival.

65. Mr CHAN Kam-lam considered that as public moneys were involved, it was essential for the subject officers concerned to closely monitor the project so as to ensure the proper use of public moneys. He urged the Administration to learn lessons from this case and consider how the monitoring of Government-funded projects could be improved in future. Mr Henry WU also sought the Administration's views on the lessons learned.

66. FS pointed out that the Chief Executive had stressed in his statement delivered on 15 May 2004 that members of ERWG and all senior members of the Administration should learn from the experience of the Festival and make necessary improvement. Notwithstanding that the Festival had not attained the expected results and had not met the expectation of the general public, the Government hoped that the incident would not discourage community organizations from putting forward novel ideas to the Government in future. FS stressed that continuous participation of different sectors of the community in public affairs would help create a harmonious society for Hong Kong.

67. DGIP considered that with the benefit of hindsight, InvestHK could have done better in the incident in three aspects. First of all, after receiving the project proposal, InvestHK, though impressed by the proposal, should have been aware of the complexity involved in implementing such a large-scale project within a short timeframe and that the target was too ambitious. Secondly, InvestHK should have realized earlier that it was inappropriate for the Government to take up the role of a “sponsor” in such a large-scale project. Thirdly, InvestHK should have planned and indicated much earlier that it should not be appointed as the subject department to oversee implementation of the Festival. DGIP re-iterated that InvestHK’s level of monitoring over the Festival was far more extensive than that in any other projects the department had ever sponsored. InvestHK had kept track of engagement of the artists, helped on a daily basis with the preparation and arrangements associated with the venue, and involved in the negotiation to resolve the Rolling Stones issues, etc.

68. Given that public funds were involved in the Festival, Mr Abraham SHEK considered that DGIP, as the Controlling Officer of the subject department for the Festival, had the responsibility of ensuring that the public funds were used in a cost-effective manner. The Administration and LegCo should find out whether there had been dereliction of duty on the part of public officers in monitoring the project.

69. In response, DGIP pointed out that Mr Abraham SHEK’s concern related to the fundamental issue of the concept of “sponsorship”. InvestHK’s understanding of the concept derived from its past experience in sponsoring projects. In this particular case, ERWG, having considered AmCham’s proposal against the sponsorship fees requested for and the expected benefits, reached the decision on 12 July 2003 that the proposal was worth sponsoring for the sum up to \$100 million. On the same day, InvestHK started monitoring the project in the traditional mode of a sponsor. As time went on, InvestHK began to realize progressively that despite its substantial support given to AmCham and its detailed monitoring of the Festival, the role of a “sponsor” for the project as understood by InvestHK in the beginning might not be appropriate. DGIP found it hard to agree with members that InvestHK or he himself had been negligent. He however agreed that it was regrettable that it had taken too long for InvestHK to realize this fact.

70. Responding to Mr Abramham SHEK’s further enquiry, DGIP said that he was not proud of the Festival. With the benefit of hindsight, he agreed that while

InvestHK had done reasonably well in implementing the Campaign, the department could have done better in monitoring the Festival.

71. Mr Abraham SHEK was not convinced by the response and expressed concern about the cost-effectiveness of the activities organized under the Campaign. He considered that the Audit Commission should conduct a review on the Campaign.

*Cost-effectiveness of the Festival*

72. Mr Henry WU enquired whether the Administration had any objective criteria for assessing the cost-effectiveness of the Festival. FS pointed out that AmCham had by and large delivered the two deliverables, i.e. 16 concerts and the TV special. Moreover, those who had attended the concerts had enjoyed themselves. On the other hand, other activities organized under the Campaign had achieved remarkable results and had achieved the objectives of boosting people's confidence, promoting tourism and encouraging a return of normal economic activities. In this connection, FS said that the Administration had provided an information paper to update Members on the progress of the Campaign (LC paper No. CB(1)1491/03-04(01)). The Administration was prepared to brief the Panel on the details if Members so wished.

73. Given the various problems related to the Festival and the public concern about the cost-effectiveness of the Festival, Mr James TIEN opined that the Government and LegCo should learn from the incident. He considered that in future, the Government should not put forward funding proposals, which had not been well thought out and lacked effective financial control framework. If the Government put forward such funding proposals, LegCo should not approve them.

74. The Chairman thanked representatives of the Administration and Mr James THOMPSON for attending the meeting.

**VI. Any other business**

75. There being no other business, the meeting ended at 1:00 pm.

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