

CHAPTER 4

Invest Hong Kong

Hong Kong Harbour Fest

**Audit Commission
Hong Kong
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This audit review has been carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and have been accepted by the Government of the Hong Kong Special Administrative Region.

The Report is available on our website at <http://www.info.gov.hk/aud/>

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HONG KONG HARBOUR FEST

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PART 1: INTRODUCTION

1.1 This PART describes the background and the objectives of the audit review.

Background

Outbreak of the Severe Acute Respiratory Syndrome

1.2 The outbreak of the Severe Acute Respiratory Syndrome (SARS) in March 2003 was a great challenge to Hong Kong. The SARS epidemic in Hong Kong lasted for over three months and affected some 1,755 individuals, including 300 deaths. Its effects went beyond the health sector and had a severe adverse impact on the general economy, employment, schooling, and many other activities. For example, the number of airline passengers had dropped by about 70%. Hotel occupancy (which was normally over 80%) was running at about 20%, having at one stage been as low as a single digit in some cases. There was also great fear and anxiety in the community. With the concerted efforts of the community, the epidemic in Hong Kong was successfully controlled. On 23 June 2003, the World Health Organisation (WHO) removed Hong Kong from the list of areas with recent local transmission.

The economic relief package

1.3 Hong Kong's economy and international image suffered a major blow as a result of the outbreak of SARS. To respond to the consequences of SARS, the Chief Executive (CE) announced on 23 April 2003 a package of relief measures amounting to \$11.8 billion to help the community tide over the difficulties and revive the economy. A summary of the relief and economic revival measures is at Appendix A. Of the total amount of \$11.8 billion under the economic relief package, \$1 billion was set aside to launch large-scale publicity and promotions internationally and locally to help bring various economic activities back to normal. On the same day, the Financial Secretary (FS) briefed the Panel on Financial Affairs (FA Panel) of the Legislative Council (LegCo) on the economic relief package.

Campaign to relaunch Hong Kong's economy

1.4 On 12 May 2003, the FS briefed the FA Panel on the overall approach for relaunching Hong Kong's economy. He informed the Panel that two ad hoc bodies had been established:

- ***The Economic Relaunch Strategy Group (ERSG)***. The ERSG was chaired by the FS and comprised six government officials and 19 members of the business community, academics and other relevant parties to give advice on the strategic approach for relaunching Hong Kong; and
- ***The Economic Relaunch Working Group (ERWG)***. The ERWG was chaired by the FS and comprised the same six government officials in the ERSG to oversee and coordinate the implementation of the various relaunch programmes.

The Director-General of Investment Promotion (DGIP) was the Secretary for both the ERSG and the ERWG. The membership and terms of reference of the ERSG and the ERWG are in Appendices B and C respectively.

1.5 After the WHO lifted the travel advisory against Hong Kong on 23 May 2003, the Administration briefed the FA Panel on 29 May 2003 on its proposal to seek the approval of the Finance Committee (FC) of LegCo for the creation of a new commitment of \$1 billion to provide funds for the campaign to relaunch Hong Kong's economy (hereinafter referred to as the "*Relaunch Campaign*"). The FC approved the financial proposal for the Relaunch Campaign on 30 May 2003.

1.6 As head of Invest Hong Kong (InvestHK), the DGIP is the Controlling Officer responsible for administering the \$1 billion commitment for the Relaunch Campaign, in accordance with directions of the ERWG (Note 1).

Hong Kong Harbour Fest

1.7 In response to the Relaunch Campaign, on 5 June 2003, the American Chamber of Commerce in Hong Kong (AmCham) proposed to organise an entertainment showcase festival, which was later named the Hong Kong Harbour Fest (hereinafter referred to as the "*Harbour Fest*"). It was scheduled to be held at the Tamar site on Harcourt Road from 17 October to 9 November 2003.

1.8 On 2 July 2003, AmCham presented its proposal to the ERWG which supported the proposal in principle. On 12 July 2003, the ERWG "*approved a maximum of \$100 million to InvestHK for underwriting*" the Harbour Fest to be organised by AmCham. The Government and AmCham entered into three legally binding memoranda of understanding (MOUs) in relation to the Harbour Fest on 31 July, 29 August and 3 October 2003. On 10 October 2003, the Government and AmCham entered into a full agreement (hereinafter referred to as the "*Agreement*") setting out in detail each party's obligations with regard to the convening and underwriting of the Harbour Fest.

1.9 Under the Agreement, the Government agreed to support the Harbour Fest and to underwrite the shortfall between the organising expenses for, and the revenue generated from, the Harbour Fest in the form of a sponsorship fee not exceeding \$100 million, which represented the maximum amount payable by the Government in relation to the Harbour

Note 1: *As stated in the FA Panel Paper (LC Paper No. CB(1)14/03-04(02)) of 11 October 2003, all proposals of spending items in relation to the Relaunch Campaign had to be submitted to the ERWG for approval. The ERWG did not accept direct funding applications for relaunch activities initiated by an outside party. A subject policy bureau/department had to be identified, which would scrutinise the proposal and take up the project, either as the organiser, a co-organiser or a sponsor. The subject bureau/department would submit a funding application to the ERWG for approval. On the approval of the ERWG, the DGIP would transfer the amount of the approved fund by an Allocation Warrant to the respective Controlling Officer of the bureau/department concerned.*

Fest. On 27 February 2004, AmCham submitted to the Government the audited accounts for the Harbour Fest which show that, after taking into account the sponsorship fee of \$100 million, the project incurred a loss of \$625,000.

Public concern over the Harbour Fest

1.10 Since the implementation of the Relaunch Campaign, there had been widespread public concern over some of the activities organised under the Campaign. Regarding the Harbour Fest, which was one of the major events under the Campaign, various problems were encountered during the organisation of the Harbour Fest concerts (see PART 4). These led to a great deal of negative publicity and public concern on details of the financial arrangements and the cost-effectiveness of this event.

1.11 A chronology of the key events relating to the Harbour Fest is at Appendix D.

Audit review on the Harbour Fest

1.12 Against the above background, in late October 2003, the Audit Commission (Audit) commenced a review to examine the Administration's role in the planning, monitoring and implementation of the Harbour Fest. The review focused on the following areas:

- (a) project conceptualisation and approval (PART 2);
- (b) project monitoring (PART 3);
- (c) organisation of the Harbour Fest (PART 4);
- (d) evaluation of the Harbour Fest (PART 5); and
- (e) lessons to be learned and Audit recommendations (PART 6).

1.13 The audit review mainly examined government records relating to the planning, monitoring and implementation of the Harbour Fest. The organiser of the Harbour Fest (i.e. AmCham) and its subcontractors are private-sector entities which do not fall within Audit's purview. The Agreement between the Government and AmCham requires AmCham to submit audited accounts in relation to the Harbour Fest to the Government not later than 28 February 2004. However, it does not provide for Audit to have access to the records and accounts of AmCham and its subcontractors.

1.14 At the commencement of the audit review, Audit requested AmCham for access to records of AmCham and its subcontractors relating to the Harbour Fest. On 11 November 2003, AmCham declined Audit's request mainly on the grounds that the Harbour Fest accounts would be subject to independent audits by private-sector auditors, as well as an independent inquiry. In the circumstances, Audit examination was basically confined to records kept by the Government.

Independent Panel of Inquiry on the Harbour Fest

1.15 Shortly after Audit commenced the review, the Administration announced in early November 2003 that the CE would appoint a panel of inquiry to investigate the handling of the Harbour Fest in view of public concern over the issue. On 12 December 2003, the CE appointed a non-statutory independent panel comprising two members. The terms of reference of the Panel were as follows:

- (a) to examine the procedures for assessing and approving the proposal by AmCham for the Harbour Fest in the ERWG;
- (b) to evaluate the organisation, administration and implementation of the Harbour Fest by AmCham and Government's role in overseeing AmCham's actions in this regard;
- (c) to identify deficiencies, if any, of such procedures and processes, and where appropriate, the responsibility of any party for such deficiencies;
- (d) to make recommendations, where appropriate, on improvements for any similar future events that might require government sponsorship; and
- (e) to make a report with conclusions and recommendations to the CE by 31 March 2004 (Note 2).

General response from the Director-General of Investment Promotion

1.16 The **Director-General of Investment Promotion** has made the following general remarks on the audit review:

- (a) InvestHK is the Government's investment promotion agency, established in July 2000 to attract to, and retain in, Hong Kong economically and strategically important investment. Staff have been recruited for their skills in or potential for investment promotion work. The department's structure and working procedures are all geared to the same end. In the course of its investment promotion work, InvestHK has acquired some experience in the field of event sponsorship and in giving limited assistance to event organisers. InvestHK does not itself organise or co-organise major events;
- (b) in April 2003, at the height of the SARS crisis, the FS asked the DGIP to undertake additional duties, in relation to economic relaunch. Specifically, the department was asked to formulate ideas and overall strategy for economic relaunch, provide a secretariat for two ad hoc bodies both chaired by the FS (the ERWG comprising officials, and the ERSG comprising the same officials plus members of the community), act as Controlling Officer for the \$1 billion

Note 2: *In mid-February 2004, the Panel announced that the deadline had been extended to 30 April 2004.*

relaunch fund, and dispense allocations from it as approved by the ERWG to the implementing agencies. Inevitably, InvestHK also came to function as first point of contact for any relaunch ideas emerging from the community at large. InvestHK operated a hotline fax and a designated e-mail account, which received over 150 suggestions and comments from members of the public;

- (c) all relaunch work undertaken by InvestHK was handled by three general grades officers on a part-time basis in addition to their regular duties. Altogether the ERWG considered 95 economic relaunch proposals and approved 84 of them;
- (d) specifically on the Harbour Fest, the then AmCham Chairman (himself a member of the ERSG) approached InvestHK in early June with the idea of an international entertainment festival, which AmCham would organise but which required substantial government financial support. InvestHK convened a meeting of relevant departments later the same month to consider a more detailed elaboration of the idea. Departments were generally supportive in principle but thought the project ambitious. Because of that and the scale of sponsorship fee sought, the meeting concluded AmCham should put its proposal direct to the ERWG;
- (e) in deciding how to handle AmCham's proposal, the Administration (in the shape of the ERWG) made a number of decisions, in particular:
 - (i) to support AmCham's plan to stage an ambitious programme in a very short timeframe;
 - (ii) to set the ticket prices at normal commercial levels; and
 - (iii) to adopt the role of sponsor rather than organiser or co-organiser, with the Government's investment promotion agency as the designated subject department; and
- (f) virtually all of the matters raised by Audit derive from one or other of these decisions, or a combination. With the benefit of hindsight, it is of course possible to identify aspects of the decisions which might have been handled differently. However this would be to ignore the extraordinary situation in which the Government found itself at the time (Note 3).

Note 3: *Audit fully recognises and has given due regard to all the unique circumstances (including, but not confined to, those decisions mentioned in para. 1.16(e)) leading to the Harbour Fest project (see Audit's comments in paras. 6.2 to 6.5). In fact, Audit's observations and conclusions on the Harbour Fest are mainly derived from the application of basic management principles which, in Audit's view, should always be followed in all (both ordinary and extraordinary) situations. Therefore, while recognising the extraordinary situation in which the Administration found itself at the time, Audit considers that a number of important lessons could be learned from the Harbour Fest project, as detailed in paragraphs 6.6 to 6.17.*

PART 2: PROJECT CONCEPTUALISATION AND APPROVAL

2.1 This PART examines the Government's assessment and approval process of the proposal to organise the Harbour Fest.

Initiation and approval of the project proposal

2.2 As part of the \$11.8 billion economic relief package, \$1 billion had been set aside in April 2003 for the Relaunch Campaign to organise large-scale publicity and promotions internationally and locally when SARS was brought under control, in order to help bring various economic activities back to normal (see para. 1.3). Under this Campaign, the idea of organising a limited number of mega events in the sporting and cultural fields was put forward in late May 2003. It was stated in both the FA Panel Paper of 29 May 2003 and the FC Paper of 30 May 2003 that in addition to providing an outlet for local people, thereby restoring the "*feel good*" factor, these mega events would bring additional visitors to Hong Kong and indirectly attract positive publicity. It was also stated that because such events depended on the availability of a limited number of heavily-committed world-famous acts, and negotiations were commercially sensitive, it was not possible to give further details at that time.

2.3 According to the FC Paper of 30 May 2003, the provisional budget for these mega events was \$200 million. However, no detailed breakdowns of these mega events were provided to the FC when it approved the commitment for the Relaunch Campaign. As the FC Paper only gave an overview of the activities under the Relaunch Campaign, some Members considered that the Administration should brief the relevant LegCo Panels on further details of these activities in due course. **In this regard, the Administration undertook to keep the FA Panel posted, on a regular basis, of the activities carried out under the Relaunch Campaign.**

2.4 Audit noted that, in briefing the FA Panel about the measures of the economic relief package in April 2003, the Administration stressed that the relief package had been put forward with due consideration of community needs and the impact of SARS on the local economy. The Administration considered that concerted efforts of the community, the business sectors and the Government were vital to overcome the SARS crisis and help Hong Kong ride out of the storm. In this regard, the FA Panel generally agreed that the Relaunch Campaign would help to rebuild Hong Kong's international image and restore the confidence of visitors and overseas businesses, and to assure people that Hong Kong was a safe place and the economy was moving back to its normal track of development. Members of the FA Panel urged the Administration to involve the business sectors and the community in launching the various programmes and to consult the relevant Panels on the details.

2.5 In response to the Relaunch Campaign, on 5 June 2003, AmCham presented to the DGIP a proposal to organise a large-scale international entertainment festival called "*Hong Kong International Autumn Festival*" (subsequently renamed the Harbour Fest), which comprised a series of world-class entertainment events to be staged at the Tamar site in October and November 2003 (see para. 1.7). The DGIP informed the ERSG of

AmCham's proposal on 20 June 2003. At an informal meeting between representatives of the Government and AmCham on 26 June 2003, the concept of the Harbour Fest was considered great but rather ambitious. It was suggested that AmCham should make a formal presentation to the ERWG. **On 2 July 2003, AmCham presented its proposal to the ERWG, which supported the proposal in principle, subject to InvestHK's scrutiny and satisfaction of the detailed budget.** On 12 July 2003, the ERWG approved a maximum of \$100 million for InvestHK to underwrite the Harbour Fest. At the meeting, the Chairman emphasised that the Government would act as the sponsor only and AmCham had to plan, organise and implement the whole event. At an ERSG meeting in September 2003 on the Relaunch Campaign, AmCham emphasised that its members were contributing their own time and efforts on a voluntary basis to organise the event for the good of Hong Kong.

2.6 The main objectives of organising the Harbour Fest were to boost morale in Hong Kong, to encourage a return to normal economic activities, to get local economy growing again by boosting local consumption and tourism, and to convince international and Mainland communities that they should come to Hong Kong for business and leisure.

Assessment of project feasibility

2.7 The proposal to organise a series of major entertainment events, involving a number of well-known overseas artists, within a short timeframe of only about three months was an ambitious one. Such a large-scale festival, which comprised 16 major open-air events (mainly pop concerts) was first of its kind in Hong Kong, and in Asia as well. As an innovative and fast-track project, the success of the Harbour Fest was doubtful at the outset (see paras. 2.8 to 2.13).

Audit observations

2.8 Audit considers that the following factors should have been thoroughly considered in assessing the feasibility of the project:

- (a) ***Concept viability: whether the concept would be accepted by the market.*** Open-air pop concerts had not been part of Hong Kong's mainstream culture. There had not been any precedents of large-scale festival of pop concerts in Hong Kong. It was not sure whether organising a series of these concerts would attract sufficient audience to make the project a success. There was little evidence that either the Administration or AmCham had conducted any market research to support the idea that staging a series of concerts within a few weeks would be well received;
- (b) ***Timeframe for organising the concerts: whether there was sufficient time to organise a large-scale festival.*** According to Audit consultation with professional concert promoters, a long lead time is required for planning and organising a major music festival involving so many world-famous international artists. With the Harbour Fest being scheduled for mid-October 2003, there was only three months' time for negotiation with artists. The lack of time for organising the festival means that the line-up of artists was only tentative in

July 2003 because artists might have other commitments during the concert period. Indeed, the final line-up of artists was significantly different from the tentative line-up (see paras. 4.28 to 4.31);

- (c) ***Timeframe for promotion/publicity and ticketing: whether there was sufficient time for promoting the concerts to visitors.*** As mentioned in paragraph 2.2, the mega events organised under the Relaunch Campaign were intended to bring additional visitors to Hong Kong and indirectly attract positive publicity. However, in response to Audit enquiry, in December 2003, the Commissioner for Tourism said that promotion of events in long-haul markets would usually take some six to nine months to be effective and about three months for short-haul markets. The short timeframe available for promotion/publicity and ticketing made it difficult for the organiser to boost revenue from overseas ticket sales (see paras. 4.17 to 4.21); and
- (d) ***Organising ability: whether AmCham had the professional expertise to organise the festival.*** AmCham was established in 1969 to represent the range of American business interests in Hong Kong. Its mission is “to foster commerce among the United States of America, Hong Kong and Mainland China, and to enhance Hong Kong’s stature as an international business center.” Some members of the Sports and Entertainment Committee of AmCham had the experience of organising entertainment and sports activities, e.g. for the Walt Disney Company and the National Basketball Association (NBA). However, AmCham *per se* did not have any experience in organising large-scale concerts which involved liaison and negotiation with a large number of world-famous international artists. It was questionable whether the Government should have agreed to support AmCham’s proposal to organise such a major music festival, given that AmCham was not specialised in the entertainment business and did not have a track record of organising large-scale concerts.

2.9 **For an innovative project the success of which is unknown, particularly where a large sum of money is involved, good management practice requires that its feasibility should be carefully studied.** The feasibility study should be supported by market research and conducted by an organisation with a proven track record.

2.10 **In the case of the Harbour Fest which was to be implemented as a fast-track project to help boost the economy after the SARS crisis, there might not have been sufficient time for a full feasibility study. Nevertheless, the four factors stated in paragraph 2.8 should still have been evaluated to assess whether the project would be well received and well organised.** In any event, it was not in the public interest for the Government to invest a large sum of public money without reasonable assurance that the project would be successful.

2.11 In this regard, the government representatives were aware that the concept of the Harbour Fest was great but rather ambitious, and therefore considered that the proposal should be presented to the ERWG for consideration (see para. 2.5). However, Audit could not find documentary evidence that important factors such as concept viability and

timeframe for organising concerts had been thoroughly analysed and discussed at the ERWG meeting of 2 July 2003 to consider AmCham's proposal. **In particular, the ERWG did not require AmCham to provide it with:**

- (a) **the track record of AmCham in successfully organising similar events (i.e. large-scale open-air concerts); and**
- (b) **evidence, such as market research, that the series of concerts would be well received.**

2.12 In the absence of documentary evidence showing that the ERWG had considered the above matters, Audit could not ascertain the basis on which the government representatives at the ERWG meeting satisfied themselves that AmCham was capable of successfully organising a series of major concerts within such a short timeframe of three months. **Audit considers that there were inadequate information and analyses on the project risks to enable the Government to conduct a proper assessment of the project, before accepting AmCham's proposal.**

2.13 Without a proper assessment of the feasibility before the Government embarked on financing the Harbour Fest, the whole project as an untried business idea by AmCham was allowed to go ahead with substantial financial support by the Government. Under the Agreement with AmCham, the Government is the owner of the intellectual property rights, sponsorship and other rights and privileges in relation to the Harbour Fest. AmCham and the Special Purpose Vehicle (i.e. Red Canvas Limited) shall be the custodian (for all the people of Hong Kong) of all rights granted, assigned or transferred to AmCham by the Government under the Agreement, which permit AmCham to promote, operate and manage the Harbour Fest in conjunction with the Special Purpose Vehicle for a period of five years, up to the end of December 2008 (see para. 4.34(c)). Until such time, AmCham shall be entitled to any revenue in relation to these rights. Even though the Harbour Fest was not profitable, if the Harbour Fest concerts had turned out to be well received and successful, it might have been possible for AmCham (or the Special Purpose Vehicle as the case may be) to derive some form of benefits from the business opportunities that could be generated from the use of these intellectual property, sponsorship and other rights in the next five years.

Response from the Administration

2.14 The **Financial Secretary** has said that:

- (a) he accepts Audit's observation that the ERWG had not fully examined the factors suggested in paragraphs 2.8 to 2.13 (i.e. concept viability, timeframe for organising the concerts, timeframe for promotion/publicity and ticketing, and organising ability) before accepting AmCham's proposal for the Government to be a sponsor, up to a maximum of \$100 million, of a festival of entertainment events (later known as the "Harbour Fest"). In fairness, however, he wishes to recall the exceptional circumstances prevailing at the time the Harbour Fest proposal was mooted by AmCham; and

- (b) when AmCham presented its Harbour Fest proposal to the ERWG on 2 July 2003, the economy was reeling from the severe blow dealt by SARS; and Hong Kong people were feeling very low and demanded that the Government took urgent action to get the economy back on track, to restore Hong Kong's reputation and to boost the morale of the community. On the part of the Government, it had just embarked on the \$1 billion Relaunch Campaign, which was to be a joint effort involving itself, the business sector and the community at large. It was against this background that AmCham, an entity in the business sector, put forward its proposal to stage the Harbour Fest in October and November 2003, which effectively meant AmCham would only have three months to undertake all the planning, organisation and implementation work. It was against such exceptional circumstances (particularly the widely perceived need for some urgent action to restore Hong Kong's reputation and to boost the morale of the community, the timeframe proposed for the staging of the festival and the likely benefits arising from the festival) that the ERWG gave its in-principle support to AmCham's proposal.

2.15 The **Director-General of Investment Promotion** has said that:

Concept viability (paras. 2.8(a), 2.9 and 2.11(b) and Note 3 in para. 1.16(f))

- (a) AmCham's original proposal was to organise a major new signature event for world-class entertainment in Asia, featuring a series of live shows and entertainment programmes over four weekends at relatively low ticket prices in the range of \$100 to \$150. These would be readily affordable by the majority of the local community. Leaving aside issues of time pressure, this concept by itself might be the reason why AmCham did not see a need to conduct any market research to ascertain the receptivity of such a "big names-cheap tickets" formula. Moreover, any such market research, if it had been conducted before 12 July 2003, would have been rendered redundant by the decision to pitch ticket prices at market level. Once the decision had been taken to sponsor the event, which needed to be implemented in less than 100 days, to have used part of this limited period for market research would have accentuated the problem; and

Custodianship of intellectual property rights (para. 2.13)

- (b) the custodianship of intellectual property rights might not have been valuable. It was never envisaged that the Harbour Fest project would be profitable. On the contrary it was always going to incur a substantial shortfall, hence the application for sponsorship. Even if all tickets had been sold, there was bound to be a net deficit, although the amount of government subsidy would no doubt have been reduced. All revenues accruing from the 2003 Harbour Fest will be added to the accounts. InvestHK does not foresee any substantial benefits which might generate significant business opportunities in subsequent years.

Analysis of options for organising the festival

2.16 It is a basic management principle for project implementation to explore all possible alternatives to achieve the project objectives. For a large-scale project, it is

necessary to conduct a formal analysis of options to determine the best way to implement the project.

Audit observations

2.17 Audit noted there was no documentary evidence that, for example, the Government had considered taking over the Harbour Fest project and explored the following options, instead of sponsoring the Harbour Fest organised by AmCham:

- (a) organising the concerts in-house; and
- (b) outsourcing to the private sector by selecting the organiser through a competitive selection process.

2.18 *Organising the concerts in-house.* The Leisure and Cultural Services Department (LCSD) has vast experience in events organisation and could have been considered for implementing the project. Under this option, the Government has a better control over the planning, monitoring and implementation of project than under the outsourcing option. In addition, because the Government has full access to information, the whole process can be more transparent. It is also easier for the Government to involve different sectors of the community including the business sectors (as suggested by the FA Panel — see para. 2.4) and to bring in competition in launching the various programmes.

2.19 *Outsourcing to the private sector by selecting the organiser through a competitive selection process.* Using this approach, the Government procures services from the private sector by competitive tendering procedures. Profit-making organisations, or non-profit-making organisations such as AmCham, can be invited to submit proposals for organising the event. Competitive tendering is a fair and cost-effective means of outsourcing government projects to the private sector. By using this option, the Government could have requested organisations with relevant experience to bid for organising the Harbour Fest. The Government could then have evaluated the merits of the proposals submitted by different bidders and selected the most suitable organiser.

Response from the Administration

2.20 The **Financial Secretary** has said that the Relaunch Campaign and the Harbour Fest under it were unprecedented. The Harbour Fest was an initiative from a group in the business sector, namely AmCham. The Government did not, as it would have under ordinary circumstances, consider conducting a tender exercise partly because the Harbour Fest was a creative concept from AmCham, and partly because of the free service and expertise volunteered by AmCham in various aspects of the planning and organising of the festival. As contracted between the Government and AmCham, the latter was the planner, organiser and implementer of the festival in accordance with commercial principles and having regard to the overall objectives of the festival. The Government was a sponsor and its sponsorship was capped at \$100 million of the net deficit of the festival.

Appraisal of project proposal

2.21 It is a good project management practice to conduct business planning before implementation of a project, especially where the project is innovative and involves considerable uncertainties. Good business planning requires, among other things, a thorough examination of the business idea, including consideration of the following questions:

- (a) What are the overall goals to be accomplished?
- (b) Is there really a market for the product/service concerned?
- (c) What are the risks involved?
- (d) What are the resource requirements (including human resources, financial resources and other facilities)?

All these questions are normally addressed in a formal business plan which also includes a financial plan or a budget.

Audit observations

2.22 As mentioned in paragraph 2.5, the ERWG accepted AmCham's proposal to organise the Harbour Fest based primarily on AmCham's presentation on 2 July 2003. AmCham had not submitted a formal business plan to the Government for consideration. Given the large amount of public money involved and the innovative nature of the project, Audit considers that a formal business plan for the Harbour Fest should have been submitted and approved by the ERWG for it to address the issues in paragraph 2.21. **In the absence of such a business plan, the Government might not have the detailed information required (such as market analysis, risk assessment and human resource plan) for conducting a proper project appraisal.**

2.23 At the meeting on 2 July 2003, the ERWG agreed to support AmCham's proposal in principle, subject to InvestHK's scrutiny and satisfaction of the detailed budget. At the request of InvestHK, AmCham submitted to the Government a "*Confidential Budget Overview*" on 6 July 2003. According to the detailed budget submitted by AmCham, the estimated expenditure of the project was \$116.2 million (see Table 1).

Table 1

**Estimated expenditure of the Harbour Fest according to
the detailed budget submitted by AmCham on 6 July 2003**

	(\$ million)
Venue construction/facilities (Note 1)	15.4
Venue operations (Note 1)	15.8
Talent (Note 2)	73.3
Television production (Note 3)	7.8
Marketing and promotions (Note 3)	3.9
Total	116.2

Source: InvestHK records

Note 1: The budget contained breakdowns by expenditure items, such as staging and technical infrastructure, backstage and dressing rooms, audience seating and facilities, utilities and services, and staffing and management.

Note 2: The budget contained breakdowns by artists and events.

Note 3: No breakdowns were provided.

2.24 As required by the ERWG (see para. 2.23), it was necessary for InvestHK to vet the budget cost of the Harbour Fest project. Audit noted that InvestHK had neither sought the assistance of government departments with experience/expertise in the entertainment field (e.g. the LCSD and the Radio Television Hong Kong), nor engaged experts in the show business, to vet AmCham's detailed budget for the Harbour Fest project. InvestHK only adopted a "common-sense approach" in checking the completeness and reasonableness of the detailed budget submitted by AmCham. Without the benefit of expert advice and information on the market prices of performances by international artists, InvestHK was unable to properly assess the reasonableness of the venue construction and operations costs and the talent costs in AmCham's detailed budget. Regarding television production and marketing/promotions, AmCham did not provide any breakdowns for these items. Hence, InvestHK was also unable to properly vet the budget costs for these items.

2.25 Audit could not ascertain the basis on which InvestHK was able to satisfy itself that AmCham's detailed budget for the project was reasonable and acceptable to the Government. It is unclear whether InvestHK had conducted a proper appraisal of AmCham's budget proposal, as required by the ERWG. It appears that the Government did not know whether the various items of expenditure in the detailed budget for the Harbour Fest were reasonable or not, before accepting AmCham's project proposal.

2.26 **Audit noted that the detailed budget submitted by AmCham on 6 July 2003 might be indicative only. However, this budget formed the basis for the ERWG to approve AmCham's proposal and make the important funding decision on the Harbour Fest project on 12 July 2003. Audit considers that InvestHK should have conducted a more thorough vetting of the budget and, if necessary, sought expert assistance in conducting the vetting.**

Response from the Administration

2.27 The **Director-General of Investment Promotion** has said that the ERWG gave its support in principle to the Harbour Fest project on 2 July 2003 on the basis of a very broad brush estimate of total costs and forecast of minimal revenues. AmCham estimated that the event would need financial support in the order of \$100 million. The outline budget submitted by AmCham on 6 July 2003 to InvestHK for vetting prior to 12 July 2003 was still indicative only. He considers that it was not open to the kind of in-depth analysis suggested by Audit in paragraph 2.24.

Financing the project in the form of government sponsorship

2.28 According to the detailed budget proposal submitted by AmCham on 6 July 2003 (see para. 2.23), it was estimated that the Government had to bear the bulk of the cost of organising the Harbour Fest. Table 2 is a summary of AmCham's budget proposal. It shows that the amount to be covered by government subsidy represented 86% of the total estimated expenditure.

Table 2

**Summary of the Harbour Fest budget
submitted by AmCham on 6 July 2003**

	(\$ million)
Expenses (including venue construction/operations, talent, television production, and marketing and promotions — see Note 1)	116 (100%)
Less: Revenue (including ticket sales, television rights and commercial sponsorship — see Note 2)	16 (14%)
Net deficit to be covered by government subsidy (Note 3)	100 (86%)

Source: InvestHK records

Note 1: Breakdowns are shown in Table 1 in paragraph 2.23. The estimated expenditure was revised to \$136.2 million in the Agreement of 10 October 2003 between the Government and AmCham. According to the audited accounts of Red Canvas Limited for the year ended 31 December 2003, the total expenditure was \$155.8 million.

Note 2: Of the total revenue of \$16 million, revenue from ticket sales was estimated to be \$11.2 million. The estimated revenue was revised to \$59.1 million, including ticket sales of \$52.5 million (see para. 4.7) in the Agreement of 10 October 2003 between the Government and AmCham. According to the audited accounts of Red Canvas Limited for the year ended 31 December 2003, the turnover was \$55.2 million, including ticket sales of \$49.6 million.

Note 3: The estimated amount to be covered by government subsidy was revised to \$77.1 million (i.e. 57% of estimated expenditure) in the Agreement of 10 October 2003 between the Government and AmCham. According to the audited accounts of Red Canvas Limited for the year ended 31 December 2003, the amount to be covered by government subsidy was \$100 million (i.e. 64% of total expenditure).

2.29 At the ERWG meeting of 12 July 2003 when the Harbour Fest project was approved, the Chairman emphasised that “the Government would act as the sponsor only” and “AmCham had to plan, organise and implement the whole event”. It appeared that, by confining the Government’s role in the project to a sponsor and by capping the sponsorship grant at \$100 million, the Government intended to limit its role and liability.

Audit observations

2.30 The DGIP informed Audit that, in discharging his duties in relation to the Harbour Fest project, he adopted a “*hands-off*” approach, as it was not the Government’s intention to “*micro-manage*” the project. The Government’s role as a sponsor was also reflected in the Agreement of 10 October 2003 between the Government and AmCham. Under the Agreement:

- (a) the Government undertook to pay AmCham a “*sponsorship fee*” of \$100 million which would be reduced to the extent that the net deficit turned out to be less than that amount; and
- (b) the Government had the right to receive from AmCham information such as business plan, budget and audited accounts in relation to the Harbour Fest. There was however no mention that the Government as the sponsor had the right of access to AmCham’s records relating to the Harbour Fest.

2.31 Apparently it was the ERWG’s utmost concern at the time to fast-track the launching of the Harbour Fest. As a result, in accepting AmCham’s proposal to organise the Harbour Fest, the ERWG had given up consideration of other alternative means of implementing the project. Because of great urgency to implement the project, the ERWG also did not give due consideration to the implications of financing the project in the form of sponsorship.

2.32 Sponsorship normally forms only a small percentage of a project’s total income. As it was estimated that the Government would need to bear the bulk of the cost of launching the Harbour Fest, the Government’s choice of financing the project in the form of sponsorship was not entirely appropriate as this would mean entrusting a large sum of public money to the sponsored organisation without adequate controls. **In this regard, Audit considers that the arrangement to finance the Harbour Fest in the form of sponsorship was not in line with the good practices set out in the relevant government guidelines for the management of government subventions.**

2.33 According to the government guidelines “*Miscellaneous Subventions — Guidelines on the Management and Control of Government Subventions*” issued in 1988, **sponsorship refers to a contribution, usually of a token amount, to help meet part of an organisation’s operational expenses and to demonstrate support for the organisation’s objectives.** The controls over an organisation in receipt of government sponsorship are generally much less stringent than other forms of government grants. Examples of requirements normally applicable to a subvented organisation in receipt of other forms of government grants include:

- (a) ***Controls and procedures.*** A subvented organisation is required to abide by certain basic conditions and rules and make every effort to improve the value for money to be obtained from the subventions. On the other hand, in the case of sponsorships, the Government will only review achievements against the objectives of the sponsorships; and

- (b) **Access to records.** The Government (including Audit) will have unhindered access to the records and accounts of the subvented organisations. In addition, Audit may carry out value for money studies if a subvented organisation receives more than 50% of its income from the Government. However, in the case of sponsorships, the Government normally does not have access to the subvented organisation's records and accounts. The Government will only review the audited accounts of the organisation in receipt of government sponsorship to obtain the most up-to-date information of its activities.

2.34 **Given that the Government paid for the bulk of the cost of the Harbour Fest, and in view of the need to account for such a large sum of public expenditure, Audit considers that sponsorship did not seem to be an appropriate form of financing this project.** Audit has not seen documentary evidence indicating that, before the decision to finance the Harbour Fest by way of sponsorship was made, the pros and cons of doing so, vis-à-vis other options of financing (e.g. by way of other forms of government grants), had been thoroughly examined and submitted to the ERWG for consideration.

2.35 Under the sponsorship arrangement for the Harbour Fest, the Government had given up most of the project controls normally applicable to a large project financed mainly by public funds. This, coupled with the fact that the project feasibility and the organiser's experience had not been properly assessed, suggests that there was insufficient assurance that the Harbour Fest would be well received and successful. (Problems encountered in organising the concerts are discussed in PART 4).

Response from the Administration

2.36 The **Financial Secretary** has said that having regard to the considerable sum of up to \$100 million sponsorship required of Government, the ERWG decided to give in-principle support and instructed InvestHK, at its meeting on 2 July 2003, to scrutinise AmCham's detailed budget before submitting the funding application for further consideration by the ERWG. At its meeting on 12 July 2003, the ERWG considered a budget summary from AmCham put forward by InvestHK, and on which basis InvestHK sought approval from the ERWG for the Government to sponsor, up to \$100 million, AmCham's proposed festival. At this meeting, the ERWG approved InvestHK's application and made it clear that the Government would act as the sponsor only and AmCham had to plan, organise and implement the whole event. As in the cases of all other initiatives under the Relaunch Campaign, a subject department would be identified to take up the project. For the Harbour Fest, the ERWG entrusted InvestHK as the subject department to oversee the implementation of the project in light of the roles assigned to the Government (i.e. a sponsor) and to AmCham (i.e. the planner, organiser and implementer).

2.37 The **Director-General of Investment Promotion** has said that it was the clear intention and decision of the ERWG that the Government should act as the sponsor *only*. AmCham was responsible for planning, organising and implementing the whole project. Hence, the role of the DGIP in taking forward ERWG's decision was primarily to ensure that the deliverables as presented by AmCham to the ERWG were realised. The provisions in the Agreement are commensurate with a sponsorship arrangement (see para. 2.33).

PART 3: PROJECT MONITORING

3.1 This PART examines the Government's monitoring of the Harbour Fest project.

Mechanism for project monitoring

3.2 Good planning is the cornerstone of any successful project. Planning work should start in the project conceptualisation stage. It entails the development of a detailed, well-documented plan for the delivery, monitoring and evaluation of the project. The smooth implementation of a major project requires rigorous monitoring to ensure that the desired outcomes are achieved. Effective monitoring is an essential element of good project management. **The Harbour Fest project was financed by the Government under a sponsorship arrangement. However, in view of the large sum of public money involved and the fact that it was an innovative project entrusted to an organiser without a proven track record, it was still necessary for the Government to establish an effective monitoring mechanism to ensure that the project would be implemented as planned. In this regard, the Government informed the FA Panel in October 2003 that a monitoring mechanism was in place which required the subject bureau/department to monitor the performance of outside parties commissioned to carry out projects under the Relaunch Campaign (see para. 3.8(c)).**

Audit observations

3.3 Audit noted that the Government did not set up an effective mechanism for monitoring the Harbour Fest project to safeguard the Government's interests. In particular, the Government did not set out clearly in the MOUs and the Agreement (see para. 1.8) the following requirements:

- (a) ***Setting key milestones and a requirement for reporting periodically to the Government the progress in achieving these milestones.*** Without establishing project milestones at the outset, the Government was unable to effectively monitor the progress of the implementation of the Harbour Fest. For example, no target dates were set for finalisation of the line-up of performers, and the commencement of publicity/promotions and ticketing. Therefore, despite the DGIP's efforts to urge AmCham to finalise the line-up of performers, the Government was not able to take effective action to deal with the belated commencement of promotions and ticketing;
- (b) ***Government's right of access to all records and accounts relating to the Harbour Fest.*** Without establishing the right of access to the relevant records and accounts relating to the Harbour Fest (including those kept by the Special Purpose Vehicle, i.e. Red Canvas Limited) during negotiations with AmCham, the Government was not able to obtain all information necessary for ensuring transparency and public accountability (including reporting to the FA Panel of LegCo) in monitoring and implementing the project. Such information included the artist fees paid and the reasonableness of these fees. Details about the lack of transparency and public accountability are described in paragraphs 3.21 to 3.25; and

- (c) *Assessment of feedbacks from the relevant parties (including service providers and audience).* Without requiring AmCham to assess and report to the Government the feedbacks from the relevant parties (particularly the concert audience), the Government was not able to effectively monitor such feedbacks on an on-going basis and conduct a proper post-implementation review of the Harbour Fest project (see also PART 5).

3.4 **Audit considers that an effective monitoring mechanism should have been set up for the Harbour Fest. In particular, milestones should have been set for the monitoring and evaluation of the Harbour Fest project.** In this regard, Audit notes that the LCSD, which is experienced in organising entertainment activities, has a well-established mechanism for monitoring subvented arts organisations under its purview (Note 4).

3.5 In response to Audit's enquiry, in March 2004 the **Director of Leisure and Cultural Services** pointed out that the Harbour Fest was not entirely comparable to the Hong Kong Arts Festival, as the former was a one-off event while the latter was an annual event for which the LCSD provided recurrent subvention. Nevertheless, several monitoring measures for subvented organisations as described in Note 4 could be adopted for mega one-off events in the future. These included: both parties mutually agreeing on the scope of activities and budgets; Government's unhindered right of access to records and accounts; the request for audited accounts; and Government's attendance of meetings of the governing bodies of the subvented organisations. She also provided for Audit's reference that:

- (a) when presenting one-off cultural and entertainment events, the LCSD assessed and approved each proposal under the "Procedures for Engagement of Artists/Services for Performing Arts and Related Activities without Recourse to

Note 4: *The LCSD mechanism for monitoring subvented arts organisations under its purview includes:*

- (a) *examining the funding applications submitted by the arts organisations, agreeing on the scope of activities and budget of the arts organisations, and entering into funding agreements with the arts organisations annually;*
- (b) *arranging for government representatives to sit in the governing Board/Council/Executive Committee/General Committee of respective arts organisations and to attend meetings as observers;*
- (c) *reserving an unhindered right of access (including access by Audit) to the arts organisations' records and accounts;*
- (d) *requiring the arts organisations to submit audited accounts and annual reports;*
- (e) *the review by the LCSD Finance Unit of internal financial and accounting procedures developed by the arts organisations; and*
- (f) *the conduct by LCSD staff of quality assurance reviews on the arts organisations' activities, covering value for money audits and compliance of relevant subvention guidelines and funding agreements.*

Tender”. This was a set of alternative procedures specially approved in 2000 by the then Secretary for the Treasury, exempting the LCSD from the normal tender procedures set out in Government’s Stores and Procurement Regulations for engaging artists and cultural and entertainment events-related services. Unless for packaged services, this exemption did not apply to logistical and supporting services which could be procured through normal tender procedures as set out in the Regulations; and

- (b) the above procedures were set up upon the abolition of the Municipal Councils which were the approving authorities for their own cultural and entertainment events, in recognition that the engagement of artists and related services was a professional judgement involving a qualitative assessment of the merits of each proposal, and that normal government procedures on the procurement of stores and services could not effectively apply. The alternative procedures aimed to establish a transparent, fair, open and accountable system in the same spirit as the Stores and Procurement Regulations, and would serve as a safeguard against individual officers’ excessive discretion, favouritism or discrimination. The procedures also set out how the approved programmes should be monitored through performance appraisal, documentation and reportage.

Response from the Administration

3.6 The **Director-General of Investment Promotion** has said that:

- (a) the Harbour Fest was not a government project and it was not the case that AmCham was commissioned to implement the project on Government’s behalf. InvestHK’s approach to monitoring the Harbour Fest was to ensure that the deliverables were achieved and to give every support to the project organiser who should set his own milestones (see also Audit’s views on the need for project monitoring in para. 3.2);
- (b) InvestHK maintained regular and frequent contact with the key personnel of AmCham in charge of the Harbour Fest (almost daily during the Festival period), either in the form of small group meetings or through telephone calls, e-mail correspondence, etc., to monitor the development of the programme and the implementation of the Festival, and where necessary to offer advice and assistance as the circumstances warranted, for example assisting in securing the venue and the various licences, liaison with the legal counsel of Rolling Stones responsible for the group’s tour arrangement, advising on the marketing, publicity and public relations fronts, suggesting potential targets for commercial sponsorship, and assisting in the logistical arrangement for TV shooting, etc.; and
- (c) furthermore, in the case of the Harbour Fest which was such a fast-track project implemented against an extremely tight timeline, AmCham (as the event organiser) had to undertake a number of tasks concurrently, which in an ideal situation might otherwise have been taken sequentially.

InvestHK's role in project monitoring

3.7 As mentioned in paragraphs 2.30 to 2.35, the Government's role in monitoring the progress of this project under a sponsorship arrangement was not clearly defined. The DGIP claimed to have adopted a "hands-off" approach, in order not to "micro-manage" AmCham in the implementation of the project. In the event, insufficient efforts were made by InvestHK in monitoring the Harbour Fest project (see paras. 3.8 to 3.19).

Audit observations

DGIP's role as the Controlling Officer of the subject department

3.8 It was stated in the FC Paper of 30 May 2003 that the "DGIP will administer the commitment in accordance with directions of the ERWG" (see para. 1.6). As mentioned in Note 1 of paragraph 1.6, for a project under the Relaunch Campaign, a subject bureau/department had to be identified for scrutinising the proposal and taking up the project as the organiser/co-organiser or sponsor. **In the case of the Harbour Fest, InvestHK was designated to be the subject department for scrutinising the proposal and taking up the project. Therefore, the DGIP had a specific role to play as the Controlling Officer of the subject department identified for taking up the Harbour Fest project.** As stated in the FA Panel Paper (LC Paper No. CB(1)14/03-04(02)) of 11 October 2003:

- (a) different policy bureaux and government departments are responsible for the activities under the Relaunch Campaign within their respective scope of responsibilities;
- (b) a subject policy bureau/department needs to be identified, which will scrutinise the proposal and take up the project, either as the organiser, a co-organiser or a sponsor. The subject bureau/department will submit a funding application to the ERWG for approval;
- (c) **on the approval of a project by the ERWG, the Controlling Officer of the bureau/department concerned will oversee the implementation of the project, and monitor the performance of the outside party, who has been commissioned to carry out the project, where appropriate; and**
- (d) **upon completion of the project, the subject bureau/department will evaluate its effectiveness vis-à-vis the stated objectives, and provide a full statement of accounts vis-à-vis the approved budget.**

3.9 According to the Public Finance Ordinance (Cap. 2), a Controlling Officer shall be responsible and accountable for all expenditure from any Head or Subhead for which he is the Controlling Officer. In discharging his responsibilities, he is expected to ensure that the services his department provides are of quality, efficient, economic and effective (para. 1.07 of the Practitioner's Guide on Management of Public Finances issued by the Financial Services and the Treasury Bureau in March 1995 refers).

3.10 As the Controlling Officer of the subject department for scrutinising the Harbour Fest project proposal and taking up the project, the DGIP's adoption of a "hands-off" approach in overseeing and monitoring the project was not adequate to satisfy the requirement stated in the FA Panel Paper that the Controlling Officer of the bureau/department concerned would "oversee the implementation of the project, and monitor the performance of the outside party, who has been commissioned to carry out the project, where appropriate" (see para. 3.8(c)).

Compliance with the terms of the Agreement

3.11 The Agreement of 10 October 2003 between the Government and AmCham sets out each party's obligations with regard to the Harbour Fest. It forms the basis for project monitoring by the Government. As set out in paragraph (1)(g) of the Fifth Schedule of the Agreement, AmCham shall prepare and submit to the Government the following information as soon as reasonably practicable:

- (a) the Business Plan;
- (b) the Budget;
- (c) a review of the Budget; and
- (d) audited accounts in relation to the Harbour Fest not later than 28 February 2004 (to include an analysis of revenue and a statement of the source and application of funds).

3.12 However, Audit found that AmCham had not submitted any formal business plan to the Government. The "plan" only comprised a copy of the presentation of 2 July 2003 to the ERWG and the "Indicative Proposal" contained in the Agreement of 10 October 2003 (just one week before commencement of the festival). Similarly, the "budget" only comprised the "Confidential Budget Overview" submitted by AmCham on 6 July 2003 (see para. 2.23) and the "Indicative Budget" contained in the Agreement of 10 October 2003.

3.13 As mentioned in paragraph 2.21, good business planning is vital to the successful launching of a new project. It is a formal means of presenting the business case to the decision-makers for appraisal of the project proposal. After approval of the project based on the business case set out in the business plan, it is necessary to keep track of the revisions to the business plan and the budget. In order to ensure that the approved business plan will not be altered without proper authorisation, it is important to monitor closely the major revisions to the business plan.

3.14 In the presentation of 2 July 2003 to the ERWG, the originally proposed "entertainment festival" was depicted as a festival of variety shows, comprising not only pop concerts, but also other forms of entertainment events such as the "Family Festival", "NBA Basketball and X Games", "Comedy Festival" and "Food Festival — A Taste of Hong Kong". However, this idea of an entertainment festival, as endorsed by the ERWG on 12 July 2003, subsequently evolved to become basically a music festival.

3.15 Audit could not find any evidence that the ERWG had formally assessed or approved the change in nature of the festival (from a variety of entertainment events to concerts). As the change had implications on costs and the Harbour Fest's target audience, proper assessment and formal approval would have been necessary. Details about the changes in the nature of the Harbour Fest and the line-up of performers are described in PART 4.

3.16 **Audit noted that InvestHK had not adequately monitored the implementation of the Harbour Fest against the approved "plan" to ensure that the original business idea endorsed by the ERWG was not materially altered without proper approval. In this regard, the lack of a formal business plan for the project was not conducive to effective monitoring by InvestHK.**

Conditions on which the project was approved by the ERWG

3.17 On 14 July 2003, InvestHK informed AmCham that the ERWG had agreed at the meeting of 12 July to underwrite the proposed festival by AmCham up to the maximum of \$100 million on a net deficit basis, on the understanding that:

- (a) **the detailed budget and all statements of account in relation to the festival would be subject to scrutiny and approval by InvestHK;**
- (b) AmCham should be fully responsible for the organisation, operation and implementation of the festival;
- (c) the pricing strategy should be critically reviewed, having regard to the nature and attractiveness of the shows, with a view to making the festival as commercially viable as possible; and
- (d) **efforts should be stepped up to explore and secure more commercial sponsorship in order to increase the revenue opportunities.**

3.18 Audit considers that the DGIP, as the Controlling Officer of the subject department designated for taking up the Harbour Fest project, should monitor the project to ensure compliance with the understanding/conditions on which the project was approved by the ERWG (see para. 3.17). Regarding the scrutiny/approval of the detailed budget/statements of account of the Harbour Fest (see para. 3.17(a)), InvestHK's monitoring work was inadequate, as mentioned in paragraphs 2.22 to 2.26 and 3.12. Regarding AmCham's efforts to secure more commercial sponsorship, Audit notes that as late as 10 October 2003 (just one week before commencement of the festival), InvestHK still assumed that no expenditure would need to be incurred on air tickets and hotel rooms (estimated at \$8 million) as these costs would be covered by commercial sponsorship. It

turned out that there was very little commercial sponsorship and \$10.3 million had to be spent on air tickets and hotel rooms.

3.19 **Audit considers that InvestHK should have played a more active role in monitoring AmCham to ensure compliance with the understanding/conditions on which the Harbour Fest project was approved by the ERWG.**

Response from the Administration

3.20 The **Director-General of Investment Promotion** has said that:

DGIP's role as the Controlling Officer of the subject department

- (a) the DGIP is the Controlling Officer for Head 79 which covers the work of InvestHK on investment promotion. The \$1 billion item created to fund the entire Relaunch Campaign was also placed under Head 79 for convenience. In the context of the Harbour Fest, InvestHK was first tasked by the ERWG to scrutinise the detailed budget to be submitted by AmCham after the presentation on 2 July 2003, and subsequently undertook to be the subject department entering into a sponsorship arrangement with AmCham, in accordance with the decision of the ERWG on 12 July 2003. As with any sponsorship arrangement, the department's role is to ensure that the deliverables are realised (see also Audit's views on the need to establish an effective monitoring mechanism in para. 3.2, and DGIP's views in para. 3.6(b));
- (b) as mentioned in paragraph 3.8(b), a subject policy bureau/department needs to be identified, which will scrutinise the proposal and take up the project, either as the organiser, a co-organiser or a sponsor. Hence, the degree of involvement on the part of the subject department in overseeing the implementation of the project, and monitoring the performance of the outside party commissioned to carry out the project, would depend on the subject department's capacity. As explained in paragraph 3.6(a), AmCham had not been "*commissioned*" by Government to implement the Harbour Fest. AmCham offered to organise the event in support of the Government's Relaunch Campaign, and proposed a sponsorship deal for Government to consider. The ERWG accepted AmCham's proposal and decided that the Government should act as a sponsor, whilst AmCham was the event organiser;
- (c) as mentioned in paragraph 2.36, InvestHK was assigned the role of subject department to **oversee the implementation** of the Harbour Fest project in the light of the roles assigned to the Government (i.e. a sponsor) and to AmCham (i.e. the planner, organiser and implementer). It is an over-simplification to describe InvestHK's role as "*the subject department identified for taking up the*

project". As explained in paragraph 3.20(b), a subject department may take up a relaunch project either in the capacity as an organiser, a co-organiser or a sponsor, each of which calls for different levels of involvement by the subject department;

- (d) he had adopted a "*hands-off*" approach only with respect to the **implementation** of the Harbour Fest project, which should be a matter for AmCham as the organiser. This "*hands-off*" approach does not refer to his monitoring role. Paragraph 3.6(b) has already explained how InvestHK monitored closely the development of the festival and the level of assistance it had rendered to the organiser;

Compliance with the terms of the Agreement

- (e) the terms "*Indicative Proposal*" and "*Indicative Budget*" contained in the Sponsorship Agreement may have given rise to an impression that the Government was looking forward to a final proposal and a final budget at a later stage. This was indeed the Government's intention when the Agreement was first drafted in July 2003. However, the negotiation of the sponsorship deal went through an iterative process and took a longer period of time than originally envisaged. Concurrently, AmCham was developing the "business plan" for the Festival in consultation with the Government, which essentially covered all major aspects such as marketing strategy, commercial sponsorship arrangement, pricing strategy and sale of tickets, venue set up and stage settings, programme line-up and the budget, etc. Essentially, these were all inter-related issues, which all proceeded at the same time from planning to implementation. The signing of the Agreement actually came at a later stage when the "business plan" and the "budget" were almost in final shape. Hence the "*Indicative Proposal*" and the "*Indicative Budget*" contained in the Agreement were the outcome of an iterative business planning process, not the forerunner as implied by the qualifying word "*Indicative*" (Note 5);
- (f) the ultimate objective of AmCham's proposal when it was first presented to the ERWG on 2 July 2003 was to "*create an entertainment showcase in support of the government's effort to revitalise Hong Kong providing the biggest bang*

Note 5: *It appears that the so-called "business plan" and "budget" in the form of "Indicative Proposal" and "Indicative Budget" only took shape at a very late stage when the Agreement was about to be signed on 10 October 2003. In fact, the Agreement requires AmCham to submit to the Government the Business Plan and the Budget as soon as reasonably practicable (see para. 3.11). As mentioned in paragraph 2.21, it is a good project management practice to conduct business planning before implementation of a project, especially where the project is innovative and involves considerable uncertainties. Audit considers that a formal business plan (including a budget) should have been submitted in good time to enable the Government to make an informed decision on the approval and funding of the Harbour Fest project.*

for the investment via a high-profile attention-grabbing collection of world famous talent”. The preliminary indicative programme carried substantial musical elements, and was enriched by some other forms of entertainment. In the development process, some of the sports elements could not materialise due to constraints of one kind or another. Nevertheless, two shows of Family Festival were staged on the first weekend of the Harbour Fest. There were bound to be changes in the programme line-up during the evolution process, but there was not substantial deviation from the original proposal of an international showcase entertainment event featuring world-class talents (Note 6). Both the ERWG and the ERSG were briefed on the programme framework as it developed. AmCham presented the development progress of the Harbour Fest to the ERSG on 1 September 2003;

Conditions on which the project was approved by the ERWG

- (g) regarding paragraph 3.18, he notes Audit’s opinion that InvestHK should have conducted a more thorough vetting of the initial indicative budget submitted by AmCham by seeking expert assistance. In PART 2, the Administration has already responded in explaining the extenuating circumstances under which the Harbour Fest project emerged and was approved by the ERWG. The exceptional business planning process of the project was also set out in paragraph 3.20(e); and
- (h) on commercial sponsorship, it should be worth noting that InvestHK had offered substantial advice and assistance to enable AmCham to solicit as much commercial sponsorship as possible, which was beyond the normal role of a sponsor. This was, however, in line with the ERWG’s intention that AmCham should endeavour to make the Harbour Fest event as commercially viable as possible. The assumption of air tickets and hotel sponsorship did reflect the position at the time when the revised budget was presented. AmCham’s negotiation with the various potential commercial sponsors was still on-going and not yet finalised. InvestHK could not anticipate the decision of the potential sponsors, which was a matter of commercial decision in the private business sector.

Note 6: *As mentioned in paragraph 3.15, because the change in nature of the festival (from a variety of entertainment events to concerts) had implications on costs and the Harbour Fest’s target audience, proper assessment and formal approval would have been necessary. The change might also have affected the attractiveness of the Harbour Fest programmes. Audit considers that the change was a material deviation from the original proposal, which should have required the formal approval of the ERWG.*

Transparency and public accountability

3.21 Transparency and public accountability in the use of public money is an important issue that needs to be addressed in the management of government projects with significant private-sector involvement. The Government is committed to an open and transparent process for private-sector involvement. According to the government guidelines “*An introductory guide to Public Private Partnerships*” issued by the Efficiency Unit in August 2003, one of the Government’s fundamental roles in public-private partnerships is to ensure transparency and probity in the procurement process. In particular, if high-risk and high-visibility services are being considered for delivery through public-private partnerships, particular attention must be given to:

- (a) maximising transparency and opportunities for public participation in the monitoring/review processes (see paras. 3.22 to 3.25); and
- (b) risk management and contingency planning (see paras. 3.27 to 3.29).

Audit observations

3.22 The Harbour Fest was by far the biggest festival of pop concerts ever sponsored/funded by the Government. It was the highlight of the \$1 billion Relaunch Campaign and, to many Hong Kong people, it was the only more visible part of the Campaign. As such, the Harbour Fest was more likely to become a **high-risk** and **high-visibility** project. The Government should have recognised from the outset that there would be great public expectations on the transparency and public participation/consultation for this project. It was important for the Government to maintain public confidence by maximising transparency in the management of this project (see para. 3.21(a)).

3.23 Transparency and public accountability of the Harbour Fest project could be enhanced by periodically consulting or briefing the FA Panel of LegCo on the progress of the project. This could facilitate public participation in the project monitoring/review processes (see para. 3.21(a)). At the FA Panel meeting of 29 May 2003 on the Relaunch Campaign, a Member expressed concern as to when the bureau secretaries would be ready to brief respective Panels of LegCo on the details of the programmes. The DGIP advised that various bureau secretaries would arrange to brief relevant Panels **when details of the programmes under their purview were ready**. It was stated in the FA Panel Paper of 29 May 2003 that the DGIP would keep the Panel posted on applications under the Relaunch Campaign **on a regular basis**. On 30 May 2003, when the FC approved the creation of a new commitment of \$1 billion for the Relaunch Campaign, Members urged the Administration to report to the relevant Panels further details of activities under the Relaunch Campaign **as early as practicable**. It was stated in the FC Paper of 30 May 2003 that the DGIP would keep the FA Panel posted, **on a regular basis**, of the activities carried out under the Relaunch Campaign.

3.24 At a meeting of the LegCo Panel on Economic Services on 12 June 2003, Members were briefed on the measures to revive the economy and to promote tourism, which included mega events and themed activities to enhance the attractiveness and competitiveness of Hong Kong as Asia's top city tourist destination. **However, details about the activities were not provided. Apart from this briefing, LegCo was not informed of details about the activities of the Relaunch Campaign (in particular, the AmCham's proposal to organise the Harbour Fest as a mega event under the Campaign) until a special meeting of the FA Panel on 11 October 2003 (just a few days before commencement of the festival) to address the public concerns over the Harbour Fest.** At this meeting, the Panel Chairman pointed out that, apart from the briefing to the Panel on Economic Services on 12 June 2003, the Administration had not briefed other relevant Panels on the activities under the Campaign. He also said that while the Administration had, when seeking the FC funding approval on 30 May 2003, undertaken to update the FA Panel on the progress of the activities under the Campaign on a regular basis, the Administration had not done so until this special meeting which was arranged at the request of the Panel.

3.25 **Audit considers that the Administration should have set up a mechanism for regular submission of progress reports on the major activities under the Relaunch Campaign to LegCo. As the Harbour Fest was a mega event under the Campaign, more frequent briefings on the progress of the project should have been provided to the FA Panel. This could have better facilitated the FA Panel to be apprised of the progress of the Harbour Fest to enhance public accountability.**

Response from the Administration

3.26 The **Director-General of Investment Promotion** has said that:

- (a) the Harbour Fest idea was fleshed out by AmCham in late June/early July 2003. AmCham presented the proposal on 2 July 2003 and the ERWG subsequently approved the government sponsorship on 12 July 2003. AmCham then proceeded to implement the project against a very tight timeline within a period of less than 100 days;
- (b) InvestHK took up the project as the subject department in July 2003, which did not allow sufficient time for InvestHK to brief the relevant Panel before LegCo went into summer recess in the middle of that month. The first meeting of LegCo after summer recess was 8 October 2003 and the first meeting of the FA Panel was scheduled for 9 October 2003. A special FA Panel meeting was convened, originally scheduled for 25 September 2003, for the Administration to give a progress report on the Relaunch Campaign, including the Harbour Fest among other relaunch activities. For various reasons, the meeting was subsequently postponed until 11 October 2003; and

- (c) with the benefit of hindsight, he accepts that he could have called for special meetings of the FA Panel during the summer recess to brief it on the preparation of the Harbour Fest by AmCham.

Risk management and contingency planning

3.27 As mentioned in paragraph 2.28, the Government had to bear the bulk of the cost of organising the Harbour Fest. The Government therefore took on the main risk that the desired outcomes and the expected impacts of the project could not be achieved.

Audit observations

3.28 For a high-risk and high-visibility project like the Harbour Fest, particular attention should have been given to risk management and contingency planning (see para. 3.21(b)). **However, as far as Audit could ascertain, there was no documentary evidence to show that these important issues had been brought up for discussion at the ERSG/ERWG meetings. No risk management and contingency plan was prepared by the Government to formally identify, analyse and address the project risks.**

3.29 In the absence of formal risk management and contingency planning for the Harbour Fest, the Government was not able to proactively address the problems encountered during project implementation. Such problems included the late finalisation of the list of performers, inadequate time for promotion and publicity, and the emergence of negative publicity, notably arising from the Rolling Stones saga (see PART 4).

Response from the Administration

3.30 The **Director-General of Investment Promotion** has said that the Harbour Fest was **not** regarded as a government project. It follows that, regarding paragraphs 3.21 and 3.27 to 3.29, there was no need for the Government to manage the festival as if it were a government project (Note 7).

Note 7: *Regarding transparency and public accountability (see paras. 3.21 to 3.25), it was stated in the FA Panel Paper of 29 May 2003 and the FC Paper of 30 May 2003 that the DGIP would keep the Panel posted, on a regular basis, of the activities carried out under the Relaunch Campaign (see para. 3.23). Regarding risk management and contingency planning (see paras. 3.27 to 3.29), Audit considers that the Government should have ensured that there were proper risk management and contingency planning. However, as mentioned in paragraph 3.28, there was no documentary evidence to show that these important issues had been brought up for discussion at the ERSG/ERWG meetings.*

PART 4: ORGANISATION OF THE HARBOUR FEST

4.1 This PART examines the problems besetting the Harbour Fest and the causes of these problems.

Problems in organising the Harbour Fest

4.2 The Harbour Fest was approved in July 2003 and staged from 17 October to 9 November 2003. There were altogether 16 concerts held at the Tamar site, which was located on the waterfront. Using the harbour and the city skyline as the backdrop, the concerts were held in good weather conditions, i.e. neither cold nor rainy. (Photographs 1 to 4 on the centre pages show some of the Harbour Fest concerts). Yet, the Harbour Fest concerts were beset with problems which resulted in negative reporting by the media.

4.3 The Relaunch Campaign aimed at restoring the “*feel good*” factor and attracting positive publicity (see para. 2.2). As an important event of the Campaign, the Harbour Fest was expected to generate positive publicity. There were 902 local media reports (Note 8) published from 27 July 2003 to 15 January 2004 as kept in InvestHK’s records. However, an audit analysis of InvestHK’s press clippings on media reports of the Harbour Fest shows that the vast majority of the media reported the Harbour Fest negatively. A summary of the analysis is given below:

- (a) 635 media reports (71%) commented negatively;
- (b) 147 reports (16%) commented positively; and
- (c) 120 reports (13%) were neutral reporting or contained a mixture of positive and negative comments.

4.4 Audit extracted a few of the media reports below, with more excerpts at Appendix E.

Local media:

- “Harbour Fest has come to an end not in the blaze of triumphant positive publicity that had been hoped for..... Unfortunately, the event has been overshadowed by lamentable organisation stemming from over-ambition, and

Note 8: *Out of 1,505 local media reports, 603 press clippings (40%) were related to fact-reporting. A net figure of 902 local media reports was used for audit analysis.*

resulted in arrangements being made by people who had no idea what they were getting into. Stories of fumbling and bungling have gone across the world. It has been a public relations disaster.....” (The Standard, 10 November 2003);

- **“What should be looked into in the Harbour Fest?** As a matter of fact, there was basically nothing wrong with the Harbour Fest throughout the process of concept development to implementation. Such a show is good for local tourism industry and can help enhance Hong Kong’s image as ‘the hub of major events’. The sincerity of AmCham to take part in reviving the economy of HK after SARS should be welcome. The problem is that if the Government was to set aside \$100 million to underwrite the show, then the quality of the show should be guaranteed as well. The Government could not become a ‘sponsor’. It should not just pay the bill and turned a blind eye to everything. AmCham is not a professional company in entertainment industry. It is understandable that it had not adequately assessed the difficulties which would be encountered in the course of the event. However, it would be a problem if the department concerned had also not adequately assessed the capability of the Chamber” (Ta Kung Pao, 11 November 2003);

- **“\$100m, the Stones and a very public row — but did we get satisfaction?** But from the start Harbour Fest was engulfed by problems, including questions about how much money the Stones were being paid and even whether they were going to perform at all. Legislators wondered why the event was being handled through Red Canvas, a company owned by AmCham chairman..... Poor ticket sales and the withdrawal of promised acts were also problems. And there is still the question of when the highlight video will be finished and broadcast. The biggest problem surrounding the event was that it was poorly handled, legislators and entertainment industry insiders say.....” (South China Morning Post, 25 December 2003);

Overseas media:

- **“Extravaganza that was too extravagant.** The Hong Kong government is preparing to launch an inquiry into the poor management and cost blowout of Harbour Fest Harbour Fest was underwritten with HK\$100 million of public money, but ticket sales were poor and the marketing and publicity were inadequate, even though the open air concert site on Hong Kong’s waterfront was a superb choice.....” (Australian Financial Review, 11 November 2003); and

- **“.....** It was ill-conceived as a marketing initiative, it cost taxpayers far too much, and never had the potential to achieve its objectives.....” (Media Magazine, 14 November 2003).

4.5 The media generally commented that the Harbour Fest was organised with good intentions, but the whole festival seemed to have been beset with problems. There were criticisms on the way in which the Harbour Fest was organised, the Government's failure to properly oversee the project, the lack of transparency, the low attendance rate and inadequate publicity. **The negative reporting largely focused on problems in concert arrangements and organising.** Through examining government records, Audit noted there were problems relating to the following aspects in organising the Harbour Fest:

- attendance rate (see paras. 4.6 to 4.21);
- chequered events leading to the Rolling Stones concerts (see paras. 4.23 to 4.27); and
- change of the line-up of artists (see paras. 4.28 to 4.31).

Attendance rate

4.6 The attendance rates of the Harbour Fest concerts comprised the following two elements:

- sales of tickets
- free tickets

Sales of tickets

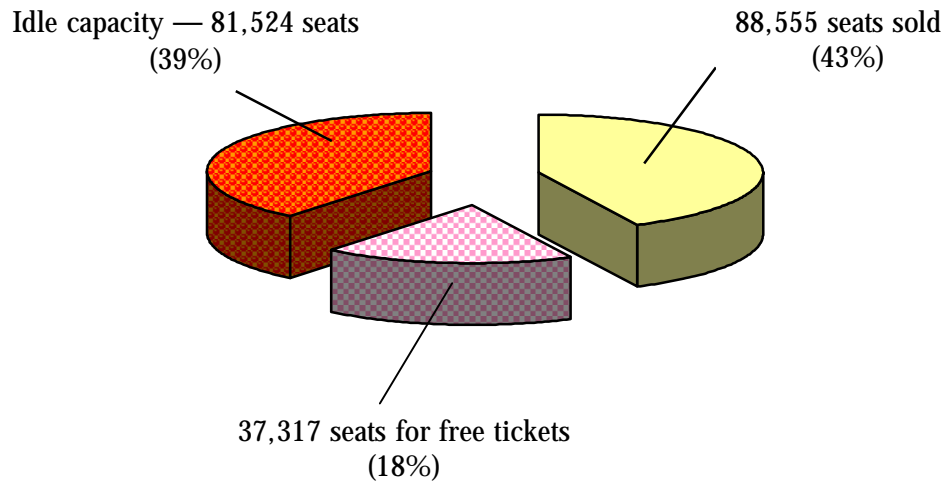
4.7 As at 10 October 2003, revenue from ticket sales, based on 50% attendance rate, was estimated to be **\$52.5 million** (which did not include the Rolling Stones concerts). Actual revenue, including revenue of \$22.8 million from the Rolling Stones concerts, turned out to be even lower at **\$49.6 million**.

4.8 Figures 1 and 2 show respectively the capacity utilisation and audience turnout for the Harbour Fest (with more details at Appendix F):

Figure 1

Analysis of utilisation of concert capacity

(Total capacity of all concerts — 207,396 seats)



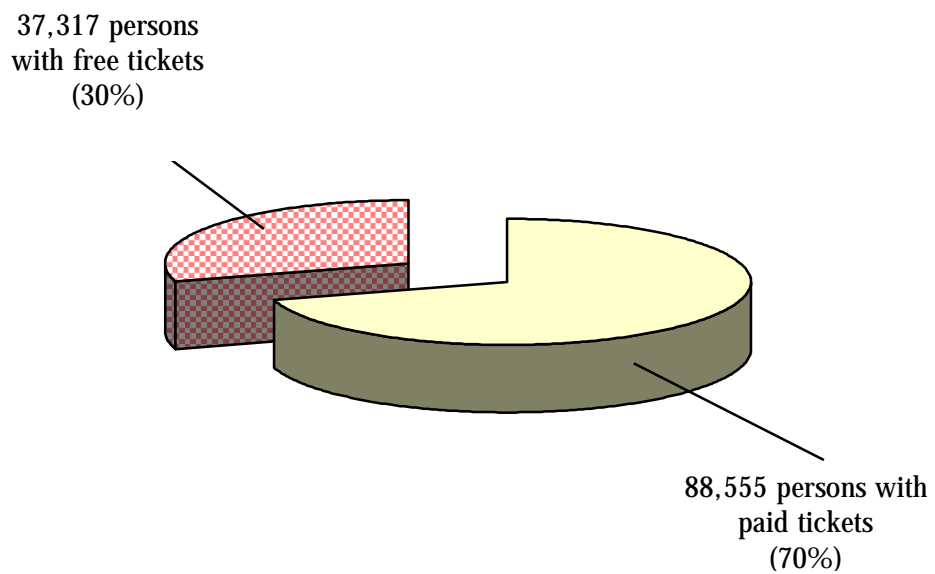
Source: InvestHK records

Note: Audience turnout rate = 61% (i.e. 43% + 18%)

Figure 2

Analysis of the Harbour Fest audience turnout

(Total audience turnout — 125,872 persons)



Source: InvestHK records

Audit observations

4.9 **Audit considers that the average number of tickets sold at 43% (see Figure 1) of the total capacity of all concerts was not satisfactory.** A breakdown of tickets sold by concerts further indicates that the tickets sold for individual concerts varied significantly. Table 3 shows the following:

- (a) there were no tickets sold for **one concert** (Note 9);
- (b) tickets sold for **11 concerts** were below 50% (i.e. 15% to 48%); and
- (c) tickets sold for **4 concerts** were over 50% (i.e. 57% to 89%).

Note 9: *For the concert held on 24 October 2003 (i.e. one week after the staging of the first Harbour Fest concert), an announcement was made on 22 October 2003, just two days before the concert to be performed by three groups, that the British group Atomic Kitten could not perform in Hong Kong. Following consultation with the Government, AmCham decided to hold a free concert instead of cancelling the performance.*

Table 3
Analysis of tickets sold by concerts

Concert	Date of concert (in 2003)	Capacity of concert	No. of tickets sold	Percentage
	(a)	(b)	(c)	$(d) = \frac{(c)}{(b)} \times 100\%$
t.A.T.u. and Twins	24 October	13,151	Nil	Nil
Asian All-Star Night	31 October	13,151	1,994	15%
Gary Valenciano (two concerts)	2 November	26,302	4,092	*16%
Gipsy Kings, Danny Diaz and Hyo-Ri Lee	30 October	13,151	4,119	31%
Craig David	18 October	13,151	4,218	32%
Neil Young and Michelle Branch	6 November	13,151	4,636	35%
Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra	20 October	13,151	4,811	37%
Prince and Karen Mok	17 October	11,751 (Note)	5,124	44%
Westlife, Energy and eVonne Hsu	25 October	13,151	5,958	45%
Family Fest (two concerts)	18 and 19 October (day)	26,302	12,632	*48%
Air Supply, Eason Chan and Ronald Cheng	26 October	13,151	7,514	57%
Santana and Andy Hui	1 November	13,151	11,457	87%
Rolling Stones (two concerts)	7 and 9 November	24,682	22,000	*89%
Overall		207,396	88,555	43%

*Legend: * Figures represent percentage for two concerts.*

Source: InvestHK records

Note: In this concert, around 1,400 seats were removed at the request of the artist to enhance the atmosphere at the venue.

Free tickets

4.10 As shown in Figure 2 in paragraph 4.8, some 37,000 free tickets were distributed, which comprised:

- (a) the distribution of 12,500 tickets due to the holding of a free concert;
- (b) the issue of some 3,000 free tickets for the two Family Fest concerts to under-privileged families through the Home Affairs Department (HAD) and the Community Chest;
- (c) the issue of 1,500 free tickets for the opening concert to the Hospital Authority for distribution to its staff, as a token of recognition of their valiant efforts in combating SARS;
- (d) the issue of some 8,000 free tickets to sponsors, media, promoters, artists, schools and production companies; and
- (e) the issue of some 12,000 complimentary tickets (breakdown of which was not provided by AmCham).

More details of the distribution of free tickets are given at Appendix G.

Audit observations

4.11 **The number of free tickets issued represents some 30% of the audience turnout. Even excluding the free concert, the free tickets account for 22% of the audience turnout or nearly one in every four persons who attended the concerts. Audit is concerned that the distribution of a large number of free tickets, particularly in the earlier concerts of the Harbour Fest, might have given the impression that the concerts were not well received by the market. This could have affected the ticket sales for some of the subsequent concerts. Furthermore, Audit notes that there were complaints that giving away tickets was unfair to other persons who had paid for their tickets.**

4.12 As regards the free concert on 24 October 2003, once the decision was taken to make it a free concert, tickets for the concert were distributed to the public at 18 outlets on 23 October 2003 on a first-come first-served basis. A maximum of four tickets was available to each person. All free tickets were given away in 35 minutes. The result of Audit's public opinion survey (see para. 5.26(d)) shows that 51% of the respondents opposed the decision of giving away the tickets whereas 37% supported. As regards the allocation of four free tickets to each person, 59% of the respondents said giving away four tickets per person were "*too many*", whereas 32% said "*just right*". In view of the fact that

public money was involved in organising these concerts, distributing two free tickets to one person would have resulted in more families enjoying the concerts.

Reasons for the low ticket sales

4.13 Audit found that the low ticket sales were mainly due to:

- low market receptiveness;
- insufficient time for organising the festival;
- inadequate time for festival promotion; and
- inadequate time for ticket sales.

Low market receptiveness

4.14 Audit conducted a public opinion survey on the Harbour Fest which identified a number of common reasons for many Hong Kong people not attending the Harbour Fest concerts. (Details of the survey are reported in paras. 5.21 to 5.27). The common reasons included: “*tickets too expensive/no extra money*”, “*not interested in music festivals*”, “*no time/too busy*” and “*performers not attractive enough*”. The Administration or AmCham should have conducted market research on whether the concept of holding a large-scale festival of pop concerts in Hong Kong was viable at the conceptualisation stage (see para. 2.8(a)) and formulated appropriate marketing strategies.

Insufficient time for organising the festival

4.15 AmCham had *only three months’ time* to organise the Harbour Fest after the ERWG approved the Harbour Fest project on 12 July 2003. Audit made enquiries with concert promoters on the sufficiency of time for proper planning and organising the series of concerts. The LCSD, which is also a concert promoter, has advised Audit that, in the case of the Hong Kong Arts Festival (HKAF), the planning work for the annual HKAF concerts would start two to three years in advance. Engagement of pop artists for performances might require a shorter timeframe as the popularity and market value of these artists fluctuate rapidly, which affect their commitment and terms of engagement.

4.16 Apparently, putting together a mix of famous international, regional and local artists in one festival in *three months’ time* was grossly insufficient. Due to the limited time available and the complexity of the tasks involved, AmCham finalised the *whole*

programme line-up at a very late stage. The programme line-up was completed in stages between 12 September and 15 October 2003, with the whole programme line-up completed just two days before the Harbour Fest was staged. The late completion of the final programme line-up affected the time allowed for the promotion of individual artists and the time available for ticket sales.

Inadequate time for festival promotion

4.17 In response to Audit's enquiries on overseas concert promotion, in December 2003, the Hong Kong Tourism Board (HKTB) advised that to be effective, festival promotion would take **six to nine months** for long-haul markets and **three months** for short-haul markets. Such lead time was required to allow publicity events and activities to be arranged and to enable visitors to plan and book their tours and hotels. **As one of the objectives of the Harbour Fest was to attract overseas visitors to come to Hong Kong, adequate overseas publicity was important for its success.**

4.18 During the ERWG's discussion on 2 July 2003, the **Commissioner for Tourism** had expressed her view that **sufficient** lead time must be available for the marketing of the Harbour Fest. In the ERSG meeting on 1 August 2003, the Chairman also urged AmCham to solicit the HKTB's assistance to help promote the Harbour Fest. AmCham had reserved up to 500 tickets for each concert for the HKTB but AmCham said that, up to 3 November 2003, the HKTB could not sell any of the tickets. However, the HKTB advised Audit in December 2003 that although it was not involved in ticket distribution, it had coordinated with overseas agents on reserving tickets for tour packages. It had assisted tour packages from Japan in reserving tickets for the concerts of Rolling Stones, Neil Young and Michelle Branch. At the FA Panel meeting of 15 November 2003, AmCham also admitted that tourists' awareness of the Harbour Fest was low.

4.19 Regarding local concert promotion, Audit noted that AmCham had once used two of the local television broadcasters' services to promote the Harbour Fest through broadcast of Announcements in the Public Interest (APIs) on television, but such broadcasts lasted for less than ten days. The broadcasts were stopped after 9 October 2003 because, in response to one television broadcaster's concern on the commercial nature of the Harbour Fest, the Information Services Department (ISD) decided to take out the relevant APIs from the broadcasting schedules. Audit noted that after the relevant APIs had been taken out, AmCham only arranged for broadcasting paid spots on two local TV stations for promoting the final weekend's concerts. On 20 October 2003 when the fifth concert was held, the ISD solicited cooperation from other bureaux and departments for displaying Harbour Fest posters at common places of government premises.

Inadequate time for ticket sales

4.20 Concert promoters have advised Audit that tickets should generally be on sale **one and a half to two months in advance**. The larger the quantity of tickets to be sold, the earlier the ticket sales should start. The DGIP in his media briefing on 15 October 2003 also said that **at least one month** must be available for ticket sales. Audit noted that in the case of the HKAF, tickets were on sale two to three months before the concerts (with advance booking available even four months before the concerts). Concert promoters also advised Audit that if the target audience for a concert belonged to the middle-aged group, an even longer period would be required to stimulate interest.

4.21 Audit's analysis of the time AmCham allowed for ticket sales of individual concerts in the Harbour Fest has shown that the time was generally very short, ranging from the shortest of **17 days** to the longest of **51 days**. Table 4 shows the following:

- (a) tickets for **eight concerts** were available for sale for periods of one month or less; and
- (b) tickets for **eight concerts** were available for sale for periods of more than one month. The longest period was 51 days.

Table 4
Number of days allowed for ticket sales of concerts

Concert	Date of concert (in 2003)	Date when ticket sales started (in 2003)	Number of days available for ticket sales
Concerts with ticket sales periods of one month or less (i.e. 31 days or less):			
Atomic Kitten, t.A.T.u and Twins	24 October	8 October	17 (Note)
Asian All-Star Night	31 October	10 October	22
Rolling Stones	7 November	15 October	24
Rolling Stones	9 November	15 October	26
Prince and Karen Mok	17 October	19 September	29
Family Fest	18 October (day)	19 September	30
Family Fest	19 October (day)	19 September	31
Air Supply, Eason Chan and Ronald Cheng	26 October	26 September	31
Concerts with ticket sales periods of more than one month (i.e. more than 31 days):			
Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra	20 October	19 September	32
Gipsy Kings, Danny Diaz and Hyo-Ri Lee	30 October	26 September	35
Craig David	18 October (night)	12 September	37
Gary Valenciano	2 November	26 September	38
Gary Valenciano	2 November	26 September	38
Neil Young and Michelle Branch	6 November	26 September	42
Westlife, Energy and eVonne Hsu	25 October	12 September	44
Santana and Andy Hui	1 November	12 September	51

Source: Harbour Fest website on the Internet

Note: It was announced on 22 October 2003, two days before the concert was to be held, that Atomic Kitten could not show up. In the event, a free concert was held.

Response from the Administration

4.22 The **Financial Secretary** has said that:

Free tickets

- (a) the ERWG supported AmCham's decision to distribute some free tickets for the opening concert to staff of the Hospital Authority as a token gesture to recognise their valiant efforts in combating SARS. The ERWG also supported AmCham's decision to distribute some tickets for the two Family Fest shows to the under-privileged families through the HAD and the Community Chest. The exact number of free tickets distributed at each of these three shows was decided by AmCham. Nonetheless, the ERWG does not consider too many free tickets had been distributed;
- (b) the ERWG suggested to AmCham to turn the concert on 24 October 2003 into a free concert for Hong Kong people when the Government learnt that one of the three performers would not be able to come to Hong Kong. The distribution arrangements, including the number of free tickets distributed to each person, were decided by AmCham;

Reasons for low ticket sales

- (c) on the various reasons for the low ticket sales (see paras. 4.13 to 4.21), with hindsight, the ERWG agrees that Harbour Fest was an extremely ambitious project, with only three months' lead time to prepare and organise a total of 16 high quality performances, staged over a four-week period. The ERWG accepts that the various factors, i.e. low market receptiveness, insufficient time for organising the festival, inadequate time for festival promotion, and inadequate time for ticket sales, might have affected the sales of tickets and the attendance rate;

Inadequate time for festival promotion

- (d) he wishes to reiterate that the ERWG had decided that AmCham was responsible for planning, organising and implementing Harbour Fest and that this included promoting and marketing the Harbour Fest events. The Government (including the ISD) had no responsibility to promote/market or help AmCham to promote/market the Harbour Fest events. Notwithstanding this, the ISD had offered AmCham assistance and advice, on a goodwill basis, on the communications and promotional fronts from time to time in the run-up to, and

during, Harbour Fest. For example, the ISD had helped to distribute and display flyers and posters on government poster sites, MTRC, KCRC and tertiary institutions, arrange bunting around the Tamar site, provide media feedback and suggestions for enhancement of publicity and arrange the broadcast of API on Harbour Fest from 2 to 9 October 2003; and

- (e) it must be pointed out that the timing for the broadcast of the API and distribution of flyers and posters was determined by AmCham's finalisation of the programme and artist line-up.

Chequered events leading to the Rolling Stones concerts

4.23 Another problem relating to organising the Harbour Fest concerts was the various chequered events leading to the Rolling Stones concerts. A chronology of the chequered events leading to the Rolling Stones concerts is given in Table 5 below.

Table 5

Chronology of key events relating to the Rolling Stones concerts

(a) Second half of August 2003	AmCham agent and Rolling Stones management reached a broad agreement on performance (including the fees, approximate performance dates, etc) through e-mails and telephone conversations.
(b) 3 September 2003 (Wednesday)	AmCham announced the launching of the Harbour Fest which would be headlined by an unprecedented mix of international and Asian artists, including Rolling Stones. As at this date, AmCham was moving to finalise negotiations with Rolling Stones management for the upcoming shows.
(c) 1 October 2003 (Wednesday)	Contract documents had been completed and were ready for signature by both sides.
(d) 2 October 2003 (Thursday)	AmCham signed the contract documents and forwarded them to Rolling Stones management. Around the same time, AmCham agent forwarded to Rolling Stones management a 50% deposit. Letters of credit for the balance were also forwarded subsequently.
(e) 3 to 8 October 2003 (Friday to Wednesday)	Rolling Stones management did not sign the contract documents and declined to give approval for AmCham to announce firm performance dates of Rolling Stones in Hong Kong and to put tickets on sale.
(f) 8 October 2003 (Wednesday)	Rolling Stones management confirmed in its conference call with AmCham that the Hong Kong deal was settled, but problems remained with their proposed Rolling Stones concerts elsewhere and these had to be resolved before the Hong Kong performance could be confirmed. AmCham and DGIP pressed for a firm answer no later than midnight next day and gave notice that failure to meet the timetable would mean the whole deal was off.
(g) 9 October 2003 (Thursday)	AmCham and DGIP told Rolling Stones management that with effect from midnight of 9 October, the offer should be considered withdrawn and the Hong Kong side would confirm this in writing on the following day.
(h) 10 October 2003 (Friday)	AmCham, in the presence of DGIP, confirmed the decision to withdraw the offer. AmCham agent formally informed Rolling Stones management by e-mail of Hong Kong's position.
(i) 13 October 2003 (Monday)	Rolling Stones management announced that the Rolling Stones performance in Hong Kong would go ahead.
(j) 14 October 2003 (Tuesday)	AmCham and DGIP agreed to entertain the Rolling Stones position. Rolling Stones management confirmed on the same day that the Rolling Stones performance dates in Hong Kong could be announced, that tickets could be put on sale and that the contract documents would be signed by them during their working day and sent to AmCham immediately.
(k) 15 October 2003 (Wednesday)	AmCham received the signed contract documents from Rolling Stones management. Ticket sales commenced in Hong Kong.

Source: LegCo paper and InvestHK records

Audit observations

4.24 The Rolling Stones were not originally included in the line-up of artists in July 2003. It was in the second half of August 2003 that AmCham reached a broad agreement with Rolling Stones management. However, without a firm commitment from the band, AmCham announced on 3 September 2003 that the Rolling Stones would participate in the Harbour Fest. On 10 October 2003, because Rolling Stones management failed to sign contract documents and declined to give approval for AmCham to announce firm performance dates, AmCham announced that it would take the offer off the table. Nevertheless, on 13 October 2003, Rolling Stones management advised that the performance in Hong Kong would go ahead. On 15 October 2003, AmCham announced that the Rolling Stones would be on.

4.25 Audit noted that on **3 September 2003** when AmCham announced that the Rolling Stones would be performing in Hong Kong, it had only reached a broad agreement with Rolling Stones management. No firm commitment had been obtained from the band. In the event, AmCham completed the signing of formal agreements with Rolling Stones management on **14 October 2003**.

4.26 AmCham considered that it had the legitimate right to refuse acceptance of the contract and stick to its earlier decision by indicating to Rolling Stones management that it had taken the contract off the table because of failure on the part of Rolling Stones management to respond by the stipulated deadline. AmCham eventually decided to fulfil the contract. This was because AmCham considered that the Rolling Stones concerts would be a fitting climax to the Harbour Fest and many people would like to see the Rolling Stones performing live in Hong Kong.

4.27 **The chequered events leading to the grand finale performance by the Rolling Stones attracted a lot of media attention. The uncertainty and confusion surrounding the Rolling Stones concerts gave the impression that the organising of the concerts was not well coordinated.**

Change of the line-up of artists

4.28 A third problem relating to organising the Harbour Fest concerts was the change of the line-up of artists. The final programme line-up for the Harbour Fest varied significantly from the original list proposed in July 2003.

Audit observations

4.29 The line-up of artists was affected by a number of factors. Such factors included whether the artists were available during the festival period, whether they were interested in taking part in the Harbour Fest and whether their fees were reasonable. Due to the short time available for approaching and negotiating with renowned overseas artists, the line-up of artists could not be finalised at an earlier date. The original and actual programme line-up at three different stages of the Harbour Fest is in Table 6:

Table 6
Original and actual programme line-up for the Harbour Fest

AmCham's proposal presented to ERWG on 2 July 2003	Per Agreement of 10 October 2003	Actual performance during 17 October 2003 to 9 November 2003
(a)	(b)	(c)
Asian Pop Stars with Jay Chou, and Twins	Asian All-Star Night: "Fly to the Sky", Shine, Boy'z, Candy Lo, Gigi Leung, Yumiko and "S"	Asian All-Star Night: Seven, Shine, Boy'z, Candy Lo, Gigi Leung and Yumiko
Family Festival	Family Fest (two concerts)	Family Fest (two concerts)
Santana or Enrique Iglesias	Santana	Santana and Andy Hui
A Taste of Hong Kong / Asian Bands	—	—
A Taste of Hong Kong / Jazz Festival	—	—
Bruce Springsteen and the E Street Band	—	—
Classics by the Harbour	Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra	Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra
Coco Lee	—	—
Elton John	—	—
Comedy Festival	—	—
Gospel Brunch with James Brown	—	—
Kylie Minogue	—	—
Linkin Park	—	—
NBA Basketball and X Games	—	—
NBA Basketball / Asian Bands / F4	—	—
"Viva Las Vegas" with Tom Jones and Annie Lennox	—	—
—	Air Supply, Ronald Cheng and Eason Chan	Air Supply, Eason Chan and Ronald Cheng
—	Craig David	Craig David
—	Gary Valenciano (two concerts)	Gary Valenciano (two concerts)
—	Gipsy Kings and Danny Diaz	Gipsy Kings, Danny Diaz and Hyo- Ri Lee
—	Neil Young and Michelle Branch	Neil Young and Michelle Branch
—	Prince	Prince and Karen Mok
—	Twins, t.A.T.u. and Atomic Kitten	t.A.T.u. and Twins
—	Westlife, Energy and eVonne Hsu	Westlife, Energy and eVonne Hsu
—	Umoja Charity Premiere (Note)	—
—	—	Rolling Stones (two concerts)

Source: InvestHK records

Note: Because "Umoja Charity Premiere" was held in another venue in Hong Kong, it was not included in the Harbour Fest.

4.30 In the case of the “*Asian All-Star Night*” concert, the artists “*Fly to the Sky*” and “*S*” were subsequently included in the programme line-up of 10 October 2003. However, they withdrew from the concert a few days after ticket sales had started. In the circumstances, refunds had to be made to those people who had bought tickets for the concert.

4.31 The significant changes in the line-up of artists resulted in the late completion of the final programme line-up. This in turn affected the time allowed for the promotion of individual artists and the time available for ticket sales (see para. 4.16).

Response from the Administration

4.32 The **Financial Secretary** agrees that the late finalisation of the programme line-up might have affected the time available for promotion and ticket sales, but he would like to recall again the widespread sense for urgent action in the community at the time the Harbour Fest was mooted.

AmCham’s submission of audited accounts of the Harbour Fest

4.33 The 16 Harbour Fest concerts ended on 9 November 2003. In accordance with paragraph 1(g)(iv) of the Fifth Schedule attached to the Agreement, on 27 February 2004, AmCham submitted the audited accounts of the Special Purpose Vehicle (Red Canvas Limited) in relation to the Harbour Fest 2003. Table 7 shows a comparison of the result of the Harbour Fest based on the audited accounts with AmCham’s earlier budgets.

Table 7

 Comparison of budgeted and actual
 revenue and expenditure of the Harbour Fest

Revenue/ expenditure item	AmCham's "Confidential Budget Overview" submitted on 6.7.2003	AmCham's "Indicative Budget" of 22.9.2003 (attached to the Agreement of 10.10.2003)	Audited accounts of Red Canvas Limited submitted on 27.2.2004
	(a)	(b)	(c)
	(\$ million)	(\$ million)	(\$ million)
Revenue			
● Ticket sales	11.2	52.5	49.6
● Sponsorship	1.6	3.1	4.9
● Others	3.3	3.5	0.7
	—	—	—
Total revenue	16.1	59.1	55.2
	—	—	—
Expenditure			
● Artist fees	73.3	85.8	89.1
● Operations	31.2	30.4	32.2
● Marketing	3.9	6.2	5.9
● TV production	7.8	6.6	7.7
● Insurance	(included in Artist fees)	4.7	6.6
● Site rental	(assumed to be free)	2.5	2.1
● Air/hotel	(assumed to be covered by sponsorship)	Nil (assumed \$8 million for air tickets and hotel rooms would be covered by sponsorship)	10.3
● Others	—	—	1.9
	—	—	—
Total expenditure	116.2	136.2	155.8
	—	—	—
Estimated shortfall (Note)	100.1	77.1	100.6

Legend: * The audited accounts show a total expenditure of \$155.8 million without an itemised breakdown. The itemised breakdown of expenditure was based on supplementary information provided by Red Canvas Limited to InvestHK on 22 March 2004.

Source: InvestHK records

Note: For comparison purposes, the shortfall has not taken into account the government sponsorship fee of \$100 million.

Outstanding tasks in hand

4.34 Although the Harbour Fest is over, Audit notes that there are still a number of outstanding tasks that require monitoring by the Government. In particular, the Government needs to ensure that its rights under the Agreement with AmCham are properly exercised. Such outstanding tasks include:

- (a) ***Broadcasting of the TV film.*** According to the Agreement of 10 October 2003, AmCham was required to produce a one-hour special TV programme capturing the highlights of the Harbour Fest. The Government has a role to ensure that the TV film will be broadcast worldwide with as much viewership as possible to achieve the objective of promoting Hong Kong;
- (b) ***Maximising the use of the performing artists' images.*** In order to maximise the benefits of the Harbour Fest, the Government needs to, under the Agreement of 10 October 2003, make best use of the individual image of the performing artists and to use TV footages and programmes of performance and related activities of the Harbour Fest for the promotion of Hong Kong (the Third Schedule attached to the Agreement refers); and
- (c) ***Hand-over of intellectual property rights.*** AmCham should hand over on 31 December 2008 all intellectual property rights and privileges in relation to the Harbour Fest (Note 10) for the benefit of all Hong Kong people, and should execute necessary deeds and documents as may be necessary to effect the transfer (Clause 8 of the Agreement refers).

Response from the Administration

4.35 The **Financial Secretary** has said that the Administration will follow up the outstanding tasks as mentioned in paragraph 4.34(a), (b) and (c).

Note 10: *According to the understanding between the Government and AmCham, the intellectual property rights refer mainly to the brand name of "Harbour Fest", the one-hour TV film and other recorded programmes that may be produced in the course of the Harbour Fest 2003.*

Photograph 1

**A view of the Tamar venue and the crowd on 2 November 2003
(para. 4.2 refers)**



Source: Photograph taken by the ISD

Photograph 2

**Daytime event – Family Fest on 18 October 2003
(para. 4.2 refers)**



Source: Photograph taken by the ISD

Photograph 3

**Audience at the Westlife, Energy and eVonne Hsu's concert
on 25 October 2003
(para. 4.2 refers)**



Source: Photograph taken by the ISD

Photograph 4

**Audience at the Gary Valenciano's concert on 2 November 2003
(para. 4.2 refers)**



Source: Photograph taken by the ISD

PART 5: EVALUATION OF THE HARBOUR FEST

5.1 This PART examines the effectiveness of the Harbour Fest.

Objectives of the Harbour Fest

5.2 To measure whether a project has effectively achieved its intended objectives, it is important to define clearly at the outset measurable performance targets, against which the actual performance can be compared. More importantly, such measurable performance targets should be related to the intended project objectives. It is equally important to set up a proper system to collect actual performance information for analysis and project evaluation.

5.3 In the funding application submitted by the DGIP on behalf of AmCham to the ERWG for approval in July 2003, the objectives of holding the Harbour Fest included boosting local morale and consumption, boosting tourism and promoting Hong Kong to international and Mainland communities (see para. 2.6). The use of public funds for financing the Harbour Fest as a mega event under the \$1 billion Relaunch Campaign (see para. 2.2) was justified on the grounds that the Harbour Fest would create an international entertainment showcase to support the revitalisation of Hong Kong and to reinforce Hong Kong's image as Asia's world city. The variety of the shows was expected to encourage the local community to resume participation in cultural and entertainment activities and to attract overseas tourists. The endorsement of Hong Kong by popular international celebrities and the broadcast of the TV film abroad would generate huge media value worldwide.

Two deliverables for the Harbour Fest

5.4 The Harbour Fest included two deliverables, namely the organisation of a series of world-class concerts at Tamar that would last for four consecutive weekends, and the production of a one-hour TV special on the performance highlights for extensive broadcast in the USA and other key markets overseas.

5.5 On 15 January 2004, the DGIP advised LegCo that both deliverables had been completed. The DGIP reported that audiences of over 100,000 persons had participated in the Harbour Fest concerts. In fact, a total audience of 126,000 persons had attended the concerts (see Figures 1 and 2 in para. 4.8). In relation to the TV film, the DGIP re-emphasised that through extensive broadcast of the TV film, the Government aimed to further enhance the exposure of Hong Kong overseas, to promote the image of Hong Kong as an events capital, to reinforce the message that Hong Kong had not only recovered from SARS but had bounced back with more energy and vitality, and ultimately to encourage more visitors to come to Hong Kong for business and leisure.

5.6 **Audit considers that, although the two deliverables have been completed, the effectiveness of the Harbour Fest, as a mega event under the Relaunch Campaign,**

should be assessed to ascertain whether the objectives of boosting local morale and attracting more tourists to Hong Kong have been met.

Effectiveness of the Harbour Fest

5.7 To measure the effectiveness of the Harbour Fest, the DGIP had set the following two performance targets in his funding application to the ERWG for approval in July 2003, namely:

- (a) a target audience of **88,000 persons** to participate in the festival; and
- (b) the broadcasting of the TV film in the USA via the American Broadcasting Company (ABC) network which would reach **100 million TV homes**.

5.8 Audit has found that although the target audience of 88,000 persons had been met, some of the Harbour Fest concerts were not well attended. Audit has also found that the target of having 100 million TV homes viewed the TV film in the USA was not met. Overall, it is questionable whether the Harbour Fest was effective in meeting its objectives which included boosting local morale and consumption, boosting tourism and promoting Hong Kong to international and Mainland communities. Details are given in paragraphs 5.9 to 5.18.

Audit observations

Evaluation of the target audience of 88,000 persons

5.9 The audience turnout of 126,000 persons had well exceeded the target audience of 88,000 persons. However, Audit noted that the target audience of 88,000 persons made in the DGIP's funding application of July 2003 was calculated on the basis of *eight pay events* only (Note 11). The DGIP estimated that there would be a "*close to full-house*"

Note 11: *On Audit's enquiry, the DGIP explained in February 2004 that the target audience of 88,000 persons in his funding application of July 2003 was based on the following assumptions:*

- *the festival would last for four weeks and there would be 16 events, with one event on each Friday night and three events on Saturdays and Sundays;*
- *the festival would be held at a venue estimated to have a capacity of 12,000 seats;*
- *events held on Fridays would have full-house attendance (i.e. 100%);*
- *for Saturdays and Sundays, only one pass was required for attending all three events. It was estimated that a total audience of 10,000 persons (or 83% attendance) would attend the three events on each weekend; and*
- *overall, the festival would achieve a target audience of 88,000 persons (i.e. $12,000 \times 4 + 10,000 \times 4$).*

In short, DGIP originally estimated that there would be a total of eight pay events only.

attendance (i.e. 80% to 100%) with prices set at \$100 and \$150. Following the ERWG's decision on 12 July 2003 to pitch the ticket prices at market level, the estimated audience attendance was revised downwards to **50%** in AmCham's revised revenue budget submitted in September. The attendance rate was calculated on the basis of paying audiences. The audience attendance rate turned out to be **61%** (see Figure 1 in para. 4.8), exceeding the revised target of 50%. However, as mentioned in paragraphs 4.8 and 4.9, the average attendance rate (excluding audiences with free tickets) amounted to **43%** of concert capacity only and attendance rates for individual concerts varied from **15%** to **89%**. **The result indicates that the Harbour Fest concerts had fallen short of expectation and that some of the concerts were not well attended.**

Evaluation of the home viewership for the TV film

5.10 The DGIP stated that the broadcasting of the TV film in the USA via ABC network would reach 100 million TV homes. Audit has however found that there is **little** prospect of having the TV film aired on ABC network and the target of having 100 million TV homes viewed the TV film in the USA has evidently not been met, as detailed in paragraphs 5.11 to 5.18.

Production and broadcasting of the one-hour TV film

5.11 On 2 July 2003, AmCham made a direct presentation to the ERWG, seeking the Government's financial support for the Harbour Fest. In its presentation, AmCham proposed that, in order to let the world see Hong Kong as coming back to life:

- (a) the TV film would be aired in the USA by ABC network in peak viewing periods which would reach **100 million TV homes in the USA**; and
- (b) AmCham would make arrangement with Music Television (MTV) to telecast the TV film across Asia and would also make the TV film available at no cost to BBC and other networks for worldwide broadcast.

5.12 Similar targets were included in the InvestHK's funding application submitted to the ERWG in July 2003 (see para. 5.7(b)). Subsequently the FA Panel were also apprised of these targets on various occasions. For example:

- (a) it was stated in the FA Panel Paper (LC Paper No. CB(1)14/03-04(02) of October 2003 that "*A television special will be produced for national broadcast in the US during the holiday peak viewing season. The tape will also be given to other TV networks around the world for broadcast, and will be able to reach as many as 500 million TV homes worldwide. The audience to be reached by TV network in the US alone is expected to be up to 80 million, and over 100 million viewers.*"; and
- (b) in a special meeting of the FA Panel held on 15 November 2003, in response to one LegCo Member's enquiry about the viewership for the TV film, the DGIP advised that "*AmCham had already secured broadcast for the whole 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..... 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. On selecting the networks for broadcasting the programme, the organiser would take into account factors including the timing and expected number of viewers reached.” (para. 44 of the minutes of the meeting refers).

Audit observations

Viewership of the TV film

5.13 The TV film production cost was \$7.7 million. In justifying the Harbour Fest, the viewing of the TV film by some 100 million TV homes in the USA was one important consideration. However Audit has reservations on the validity of the estimation of 100 million USA homes watching the TV film. This is because, based on research on the Internet, Audit has found the following statistics (Note 12):

- (a) there were **108.4 million TV homes** in the USA (as at September 2003);
- (b) in the past 40 years, the most popular TV programme in the USA had a viewership of **50 million TV homes only**; and
- (c) the highest weekly primetime viewership of ABC in late 2003 and early 2004 was **9.2 million TV homes** (see para. 5.15(c)).

5.14 Although the DGIP was tasked to submit a funding application for the ERWG’s approval (see para. 5.7), there is no evidence that he had made any efforts to verify the reasonableness of the estimate of viewership in the funding application. It is uncertain whether the project would have been approved if a realistic estimate had been provided.

Broadcasting of the TV film in the USA

5.15 Recent developments indicated that the TV film was in the event *not* aired on ABC network in the USA, but was aired on MTV and MTV2 networks. In arranging for the airings on MTV and MTV2 networks, an AmCham representative admitted that it was very hard to get a special on air in the USA. In making the airing arrangements, he stated that “*regarding the network, we almost have to live by ‘beggars can’t be choosers’*”. In this connection, Audit notes that MTV and MTV2 networks are *not* comparable with ABC network as far as viewership is concerned. This is because ABC network is one of the major national networks in the USA (Note 13), which is free and is accessible by **all** TV

Note 12: *The statistics for items (a) and (b) are collected and published by Nielsen Media Research, Inc. (<http://www.nielsenmedia.com>). The statistics for item (c) are published by the Television Bureau of Advertising (<http://www.tvb.org/rcentral>).*

Note 13: *Other than ABC, major national networks in the USA include CBS (Columbia Broadcasting System) and NBC (National Broadcasting Company).*

homes in the USA (i.e. it has a household coverage of 108 million TV homes). On the other hand, MTV and MTV2 are pay cable TV networks with much lower TV home viewership. Audit further notes that in the USA, there are more than 100 cable TV networks. MTV and MTV2 are two affiliated networks with the following characteristics:

- (a) both MTV and MTV2 networks mainly cater for music fans in their teens and thirties. MTV is a specials/series focus TV network whereas MTV2 is a music focus TV network;
- (b) in the USA, MTV and MTV2 have a household coverage of 85 million and 48 million TV homes respectively;
- (c) the home viewership for MTV and MTV2 is much lower than that for major national TV networks. For example:
 - taking the first 20 weeks of the 2003-04 TV Season in the USA which started from the week ended 28 September 2003, ABC network had a highest weekly primetime viewership of **9.2 million TV homes** whereas MTV had a highest weekly primetime viewership of **1.1 million TV homes only**; and
 - although no information on household viewership of MTV2 is published on the Internet, however, as MTV2 has a smaller household coverage than MTV, it is believed that the airing of the TV film on MTV2 on primetime would have a lower viewership than MTV's 1.1 million TV homes; and
- (d) MTV and MTV2 appeal to youngsters only. They are not so appealing to the main target audience for trade, investment or tourism.

5.16 As MTV and MTV2 have much less TV home viewership in the USA, apparently the original target viewership of 100 million TV homes in the USA cannot be reached. Besides, as MTV and MTV2 appeal mainly to youngsters, it is doubtful whether the objectives of the TV film to promote the image of Hong Kong and attract visitors to come to Hong Kong for business and leisure can be met by airing the TV film in these networks.

5.17 According to InvestHK's records, there were three airings in the USA for the TV film. Two airings were arranged on MTV2 network which had a smaller household coverage (see para. 5.15(c)), with the first one at 9:00 p.m. (Eastern Standard Time) on 22 January 2004 and a second one at 11:00 p.m. on 25 January 2004. A third airing was arranged on MTV network at midnight on 8 February 2004. The third airing achieved a

viewership of **0.2 million TV homes** in the USA only (Note 14). On the assumption that the first and second airings had similar viewership as the third airing, it is estimated that the three airings had a total viewership of **0.6 million TV homes** only. AmCham's representative, who was responsible for contacting the networks, also advised InvestHK that AmCham had the right to air the TV film **three times only** in each market regardless of pay cable or other TV networks. In other words, once the TV film had been aired for three times in the USA, the TV film could not be aired again on any of the USA networks.

5.18 **Audit is concerned that the three airings had only achieved a total viewership of less than 1 million TV homes which is less than 1% of the target viewership of 100 million TV homes in the USA.** Audit considers that in approving a project, the Government should always ensure that the project proposal provides an accurate and reliable forecast of the project benefits.

Response from the Administration

5.19 On the evaluation of the Harbour Fest, the **Financial Secretary** has said that the Government has ongoing rights to use clippings of the video, as well as other unused visual footages, featuring world-class celebrities as endorsers for Hong Kong. The potential value of these endorsement deals would also need to be taken into account when considering the effectiveness of Harbour Fest.

5.20 The **Director-General of Investment Promotion** has said that:

- (a) in the meeting on 2 July 2003, the extent of TV coverage was presented as one of the envisaged benefits of the festival. The ERWG agreed to support in principle AmCham's proposal, having regard to the substantial benefits to be engendered by the Harbour Fest, and asked InvestHK to scrutinise AmCham's detailed budget before submitting a funding application for its further consideration;
- (b) regarding the target audience of "*88,000 persons attending the Harbour Fest*" and the potential estimate of "*100 million TV homes in the USA viewing the TV film*" made in the funding application submitted by InvestHK in July 2003, the estimates came from AmCham and were recaptured as potential benefits in his funding application submitted to the ERWG for approval in July 2003;

Note 14: *As confirmed by Nielsen Media Research, Inc., the airing on MTV network was viewed by 224,000 TV homes in the USA.*

- (c) the estimated attendance and the potential TV audience for the one-hour TV film were quoted as the performance indicators with a view to facilitating the evaluation of the cost-effectiveness of the sponsorship deal by the ERWG. The primary objectives of the festival, and indeed the entire economic relaunch campaign, were to encourage a return to normal economic activities, to promote tourism and business, as well as to boost morale and confidence in the local community after the outbreak of SARS. The two performance indicators should not be taken as the targets of the festival per se (Note 15);
- (d) the minutes of the FA Panel meeting on 15 November 2003 have quoted him as saying “*AmCham had already secured broadcast for the whole 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*”. These figures refer to the size of potential TV audience that could be reached by the TV network (see relevant information in paras. 5.11 and 5.12). This should not be interpreted as an estimate of TV homes/viewers who would be actually watching the film;
- (e) as borne out in paragraph 5.13, “*there were 108.4 million TV homes in the USA*”, and “*in the past 40 years, the most popular TV programme in the US had a viewership of 50 million TV homes only*”, it would be misleading if the performance indicator should be interpreted as set target of “*having 100 million TV homes viewed the TV film in the USA*”. On the face of it, this was bound to be not achievable from the outset; and
- (f) regarding the airing of the TV film on ABC network in the USA, there was indeed a prospect of airing the TV film on ABC Family network (Note 16). However, in the opinion of the AmCham representative who was responsible for the TV special, ABC Family compared less favourably with MTV in terms of viewership and commitment for repeated airings. Hence, AmCham decided not to go for ABC Family.

Note 15: *In Audit’s view, both performance indicators and performance targets are in essence performance measures that help evaluate whether a project has effectively achieved its intended objectives (see para. 5.2).*

Note 16: *ABC network and ABC Family network are both owned by the Walt Disney Company. ABC network is a major national TV network that is free and accessible to all 108 million TV homes in the USA whereas ABC Family network is a pay cable network that reaches 84 million TV homes. Taking the first 20 weeks of the 2003-04 TV Season in the USA (which started from the week ended 28 September 2003), ABC Family network had a highest weekly primetime viewership of 1.1 million TV homes in the USA only, which was significantly less than the viewership of 9.2 million TV homes for ABC network.*

Audit surveys

5.21 Audit noted that the DGIP had not set up a mechanism to collect comprehensive performance information to measure the effectiveness of the Harbour Fest. For example, he had not planned for the conduct of any survey to gauge the public's opinion on the festival. In November/December 2003, Audit commissioned a research and survey pollster to conduct two surveys on the Harbour Fest, namely a general public opinion survey (i.e. general survey) and an audience survey.

5.22 *Scope of the general survey.* The general survey, which was conducted from 27 November to 10 December 2003, involved a random telephone survey of 2,026 Hong Kong residents. The residents were asked about their perception of the effectiveness of the Harbour Fest, their general appraisal and a dollar-value rating of the Harbour Fest, their reasons for attending or not attending the Harbour Fest concerts and, if they had attended, their evaluation of the concerts attended.

5.23 *Scope of the audience survey.* The audience survey, which was conducted from 6 to 11 November 2003, involved an on-line survey (Note 17) of audiences of the last three concerts of the Harbour Fest held on 6, 7 and 9 November 2003. Audiences were asked about their appraisal of the Harbour Fest concerts in various aspects.

5.24 *Representativeness of the survey results.* Although the two surveys were targeted at different groups of Hong Kong people, the results of the two surveys have to be taken together to provide a better perspective for proper interpretation. In interpreting the results, it should be borne in mind that the general survey was **meant to be highly representative** of opinion carried by the general public of age 15 or above. On the other hand, the results of the audience survey were **not meant to be representative** of the entire Harbour Fest audience. As explained above, the audience survey covered audiences of the last three concerts only and the response rate was only 6% (Note 18). Despite these limitations, the audience survey helped collect some qualitative information from a sample of actual audience, towards the closing of the Harbour Fest, to support the analysis of the general survey results. Besides, feedbacks collected from the audience survey, especially those responses to open-ended questions set in the survey, were very useful and inspiring.

Note 17: *The survey was conducted on-line in the sense that audiences of relevant concerts were invited to complete a survey questionnaire which was posted on a prescribed website (see paras. 19 to 23 of Appendix H).*

Note 18: *A response rate of 6% was not too low for this type of on-line surveys. But with such a response rate, it would mean that a certain degree of systematic bias (say, in favour of more vocal audience) is bound to have occurred.*

5.25 *Survey results alone cannot serve as conclusive evidence.* It should be borne in mind that the survey results represented the respondents' subjective opinion only. Although the results do not provide conclusive evidence, they provide useful insights in performing a value for money appraisal of the Harbour Fest.

Audit observations

5.26 The surveys have produced the following results (with more details given at Appendix H):

- (a) *Perception of the general public on the effectiveness of the Harbour Fest.* According to the general survey, **60%** of the respondents considered the Harbour Fest an unsuccessful event in general. More specifically, **56%** said it had failed to revive the economy, **43%** said it failed to attract tourists, **42%** believed it had tarnished Hong Kong's international image, while **36%** said it had failed to convey the message that Hong Kong was no longer under the threat of SARS. Only **8%** of the respondents considered Harbour Fest a success;
- (b) *A dollar-value appraisal of the Harbour Fest.* To measure if good value was obtained for money spent, respondents were asked to give a dollar-value appraisal for the government expenditure on three leisure and cultural activities, namely, the Harbour Fest, the visit of Real Madrid Football Club, and the annual HKAF. The result indicated that **79%** considered the money spent on the visit of the Real Madrid Football Club was good value for money, and **65%** said money was well spent on the annual HKAF. Some **79%** said that good value was *not* obtained for the money spent on the Harbour Fest. Only some **15%** said yes. Overall, the survey results indicated that Harbour Fest was generally not perceived by the public as good value for money;
- (c) *Public support on government spending to boost Hong Kong's image.* The general survey indicated that **31%** of the respondents considered that the Government should spend more than \$15 per Hong Kong citizen on such events, as against **44%** who said it should **not** be more than \$15. The figure of \$15 per citizen, or \$100 million in total, was in fact the amount of government contribution to the Harbour Fest. In other words, a significant number of respondents were prepared to support government spending on similar events in order to boost Hong Kong's image after the SARS epidemic, but only **15%** considered the Harbour Fest to be good value for money;
- (d) *Appraisal by the general public on the operation of the Harbour Fest.* In spite of some positive feedbacks on the choice of venue and on the idea of the "crossover" of local and international artists, **70%** of the respondents considered the promotion to be insufficient, **55%** considered the ticket price too high, and

51% opposed the Government's decision of giving away free tickets for the concert on 24 October 2003 due to the absence of Atomic Kitten. On the question of why attendance of the Harbour Fest was below satisfaction, the most frequent answers given by the respondents included: insufficient promotion, poor organisation, unattractive performers, and the tickets being too expensive. Thus, the general public seemed to consider that the main problem did not lie with the idea of Harbour Fest, but on the planning and organisation of the Harbour Fest. Moreover, 57% of the respondents did not like the idea of organising annual music festivals like the Harbour Fest. For those respondents who had attended the concerts, which made up of only a very small proportion of the respondents to the general survey, their opinions were, as expected, more favourable;

- (e) *Comments from the audience.* Based on the feedback from the audience survey, some people appreciated the idea of organising such concerts, considered the Tamar a good venue and blamed the media for the negative publicity. Many people, however, criticised the organisers for their lack of experience, poor promotions, inappropriate ticket pricing and did not welcome the mix of local and international artists. It is also interesting to note that those answering the on-line audience survey in English tended to give more favourable opinion of the Harbour Fest, while those answering in Chinese tended to be much more critical. This “*language-divide*” might be due to the performances being more appealing to English speakers; and
- (f) *More favourable support from those who attended the concerts.* Those who attended the concerts on the whole (based on general and audience surveys) seemed to have appraised Harbour Fest more favourably than those who did not (based on the general survey). This is readily understandable as the act of going to the concerts is by itself a sign of support to the Harbour Fest.

5.27 Overall, the surveys indicated that those who attended the concerts enjoyed the concerts. Most respondents to the audience survey admitted that the negative coverage and open remarks made in the media reports were unfair and unjustified, which had given the event a bad name and scared off the general public, resulting in an overall dissatisfied attendance. However, the Harbour Fest was on the whole not perceived by the public as good value for money. The Harbour Fest had projected a negative image although a significant number of respondents were prepared to endorse government spending on similar events in order to boost Hong Kong's image after the SARS epidemic.

PART 6: LESSONS TO BE LEARNED AND AUDIT RECOMMENDATIONS

6.1 This PART covers the important lessons to be learned from the Harbour Fest project and Audit recommendations.

Unique background leading to the Harbour Fest project

6.2 The Harbour Fest project was embarked at a time when Hong Kong's economy was suffering from a severe blow from SARS and there was an urgent need for the Government to get the economy back on its feet and to boost morale in the community. It was an **exceptional** situation. Owing to the urgency and the Government's keenness to realise the benefits of the Harbour Fest as early as possible, the Government accepted AmCham's proposal of the Harbour Fest and gave it a free hand to plan and organise the event. As AmCham was a non-profit-making organisation and it offered to provide its service free of charge, the Government accepted its offer without having gone through a competitive selection and tendering process.

6.3 Due to the exceptional situation, at the outset the Government had defined its role as a sponsor and did not seek to micro-manage the project. In discharging its role of a sponsor, the Government adopted a "*hands-off*" approach. The Government had neither properly vetted AmCham's proposal nor assessed the feasibility of implementing the Harbour Fest within such a short period. Furthermore, it had not set out any terms and conditions for compliance in the use of government funds in the Agreement with AmCham and reserved the right of access to AmCham's records. These resulted in the Government's losing control over the Harbour Fest project. Overall, Audit considers that, in its keenness to revive the economy, the Government had deviated from essential management principles in its monitoring of the Harbour Fest project.

6.4 The Harbour Fest concerts were beset with problems. Many of the problems arose mainly because too little time was available to do too many things. In fact, after the festival was over, both the Government and AmCham admitted that, with hindsight, it was extremely ambitious to put together 16 concerts in three months' time. The Government admitted that the parties concerned might have underestimated the complexity involved in the organisation of the Harbour Fest. In a media interview in December 2003, the then AmCham Chairman also admitted that the lesson he learned from the Harbour Fest was that there should have been shorter and fewer performances.

6.5 The theme of the Harbour Fest was to boost local morale, and to show to the world that Hong Kong had bounced back from SARS and Hong Kong remained as a world-class city. It transpired that the Harbour Fest had fallen short of its objectives. The bad publicity of the Harbour Fest led to a negative impact on all parties concerned. It had to a certain extent blemished the image of Hong Kong and the organiser. In the light of the findings in PART 5, Audit has doubts on the effectiveness of the Harbour Fest.

Important lessons to be learned

6.6 Based on the findings in PARTs 1 to 5, Audit considers that a number of important lessons could be learned from the Harbour Fest project. They are discussed in paragraphs 6.7 to 6.17.

The need to critically assess the project feasibility

6.7 In a dynamic city like Hong Kong, and in order to meet increasing public expectation and demand, there will continue to be a need for the Government to embark on innovative projects similar to the Harbour Fest. Many of these innovative projects may involve some degree of private-sector involvement. When substantial public money is involved, the Government should, in all circumstances (even if there is an extreme urgency to proceed with a project), critically assess the project feasibility at the conceptualisation stage. In assessing the project feasibility, the Government needs to thoroughly consider, among other things, the concept viability, the timeframe for project implementation, and the capability of the private-sector entities involved (see paras. 2.7 to 2.13).

The need to conduct an analysis of options to determine the best way to implement a project

6.8 For a large-scale project, the Government needs to conduct a formal options analysis to determine the best way to implement the project. Possible options that should be seriously considered by the Government include implementing the project in-house and outsourcing the project to the private sector by competitive tender (see paras. 2.16 to 2.19).

The need to vet the business plan in the appraisal of project proposal

6.9 It is a good project management practice to conduct business planning before commencing a project. In the appraisal of project proposal, the Government needs to thoroughly vet the formal business plan prepared for the project, which should also include a detailed budget (see paras. 2.21 to 2.26).

The need to adopt the most suitable mode of financing a project

6.10 In assessing the most suitable mode of financing a project with substantial private-sector involvement, the Government needs to follow the good practices set out in the relevant guidelines for the management of government subventions. In this regard, sponsorship may not be a suitable arrangement to finance a project which is largely funded by the Government (see paras. 2.28 to 2.35).

The need to set up an effective mechanism for project monitoring

6.11 Effective monitoring is an essential element of good project management. Even if there is great pressure to implement a project urgently, it is still necessary for the Government to establish a monitoring mechanism to ensure that the project will be

implemented as planned. In particular, the Government needs to establish project milestones at the outset to facilitate effective monitoring of the project implementation (see paras. 3.2 and 3.3(a)).

The need to ensure that the monitoring role of the Controlling Officer is properly discharged

6.12 The Controlling Officer of a major government project is entrusted with the management of a large sum of public money. In any circumstances, it is necessary for the Controlling Officer to take all necessary action to monitor the project effectively to ensure that good value is obtained for the public money spent on the project (see paras. 3.8 to 3.10).

The need for greater transparency and public accountability

6.13 Transparency and public accountability in the use of public money is an important issue that needs to be addressed in the management of government projects. For a high-risk and high-visibility project with significant private-sector involvement, the Government needs to maximise transparency and opportunities for public participation in the monitoring/review processes. Where appropriate, it may be necessary to enhance public accountability by regularly briefing LegCo on the progress of the project (see paras. 3.21 to 3.25).

The need for risk management and contingency planning

6.14 For a high-risk and high-visibility project (such as the Harbour Fest), the Government needs to pay particular attention to risk management and contingency planning. Where necessary, the Government may need to follow the good practice to prepare a risk management and contingency plan to formally identify, analyse and address the project risks (see paras. 3.27 to 3.29).

The need to ensure that there is sufficient time to organise a large-scale project

6.15 It is always a good practice to assess, in all circumstances (even if there is an extreme urgency to proceed with a project), whether there is sufficient time to organise a large-scale project at the conceptualisation stage (see paras. 4.13 to 4.21).

The need to establish a proper performance measurement framework to assess the effectiveness of a project

6.16 It is always a good practice to consider performance measurement as a key component of project planning. It helps assess whether a project has achieved its objectives. Performance information, whether for internal management use or for external reporting, helps stakeholders and management to draw well-informed conclusions about performance and take corrective action if necessary (see paras. 5.6 and 5.21).

The need to evaluate the reasonableness of performance targets and benefit estimates made by private-sector partners

6.17 In deciding whether a project should be approved, management should take into account, amongst other factors, the performance targets and benefit estimates made by the private-sector partners. It is therefore important that the proposal provides an accurate and reliable assessment of the performance targets and benefit estimates. The Government should also institute appropriate measures to evaluate the reasonableness of the performance targets and benefit estimates (see paras. 5.9 and 5.18).

Audit recommendations

6.18 By way of lessons learned from the Harbour Fest project, Audit has *recommended* that the Financial Secretary should remind all Controlling Officers that they should:

The need to critically assess the project feasibility (para. 6.7)

- (1) before embarking on an innovative project involving a large sum of public money, conduct a feasibility study wherever possible, with a view to critically assessing whether the project stands a good chance of success;
- (2) if there is pressure to implement a project urgently (e.g. a fast-track project), provide full information on the inherent and specific risks of the project to the appropriate approving authorities to enable them to assess the project feasibility;
- (3) if a project calls for close collaboration with the private sector, require the private-sector entities concerned to provide their track records of relevant experience on similar projects, in order to assess their capability of achieving the desired project outcomes;

The need to conduct an analysis of options to determine the best way to implement a project (para. 6.8)

- (4) always conduct an options analysis to help the appropriate authorities make a well-informed decision on the best way of implementing a project;
- (5) follow competitive tendering procedures, wherever possible, in selecting service providers for a project;

The need to vet the business plan in the appraisal of project proposal (para. 6.9)

- (6) ensure that, for a major project, a formal business plan is drawn up for approval by the appropriate authorities;
- (7) scrutinise critically the budget proposal in the business plan to ensure that the various items of expenditure are reasonable;
- (8) if a project involves technical/specialised issues, ensure that those government departments with relevant expertise are involved in appraising the project proposal and, where necessary, engage outside experts to assist in the project appraisal;

The need to adopt the most suitable mode of financing a project (para. 6.10)

- (9) follow the good practices set out in the government guidelines on subventions, procurement of services, and private-sector involvement;
- (10) for projects involving the private sector, always evaluate the different approaches of private-sector involvement and select the approach most suitable for the circumstances. In this regard, sponsorship should normally not be adopted for a project if the Government's financing is huge and covers the bulk of the cost of the project;
- (11) for a project which the Government has to bear the bulk of the cost, ensure that the agreement with the main service provider should contain provisions to permit the Government to have access to all accounts and records relating to the project;

The need to set up an effective mechanism for project monitoring (para. 6.11)

- (12) ensure that key milestones are set and progress reports on the achievement of these milestones are submitted periodically for project monitoring purpose;
- (13) for a project which is largely financed by the Government, ensure that all relevant information relating to the project is available to the Government to meet necessary disclosure requirements, in order to ensure transparency and public accountability in the use of public funds;

The need to ensure that the monitoring role of the Controlling Officer is properly discharged (para. 6.12)

- (14) always take effective action to monitor a major project, with a view to discharging the monitoring role as the Controlling Officer;

The need for greater transparency and public accountability (para. 6.13)

- (15) in the implementation of a high-risk and high-visibility project, make special effort to monitor the progress of the project, having due regard to public expectations for transparency and public accountability;
- (16) consider whether it is necessary to regularly brief the relevant LegCo Panels about the progress of the project, in order to enhance transparency and public accountability;

The need for risk management and contingency planning (para. 6.14)

- (17) identify, analyse and address the inherent and specific risks of a project by a structured approach of risk management and contingency planning. In this regard, it may be necessary to prepare a formal risk management and contingency plan to facilitate discussion by the relevant authorities responsible for project planning and monitoring;

The need to ensure that there is sufficient time to organise a large-scale project (para. 6.15)

- (18) always assess the feasibility of completing a project successfully within the specified time allowed. If necessary, seek advice from departments with relevant expertise and outside experts;

The need to establish a proper performance measurement framework (para. 6.16)

- (19) endeavour to develop a proper performance measurement framework at the project planning stage to help assess the cost-effectiveness of a project;
- (20) collect and analyse actual performance information, and assess the achievement of the intended outcome to determine the cost-effectiveness of the project; and

The need to evaluate the reasonableness of performance targets and benefit estimates made by private-sector partners (para. 6.17)

- (21) take appropriate steps to ensure that important performance targets and benefit estimates made by the private-sector partners in their proposals are reliable and accurate.

6.19 With reference to the Harbour Fest project, Audit has *recommended* that the Director-General of Investment Promotion should:

Follow-up on the various outstanding tasks relating to the Harbour Fest (para. 4.34)

- (1) closely monitor the progress of the various outstanding tasks in hand and, if appropriate, report the results to the FA Panel;
- (2) make the best use of the contractual rights in the Agreement with AmCham to promote Hong Kong;
- (3) consult and seek support, if necessary, from Heads of other Bureaux and Departments, such as the Commissioner for Tourism, the Director of Broadcasting, the Director of Leisure and Cultural Services and the Director of Information Services, in exercising the contractual rights;

Viewership and broadcasting of the TV film abroad (paras. 5.11 to 5.18)

- (4) monitor AmCham's progress of broadcasting and provide support to AmCham, if necessary, to have the TV film broadcast in as many TV networks as possible, including broadcasting in local and Mainland China's TV networks;
- (5) ascertain the viewership, in terms of the number of TV homes, of the TV film after broadcasting in the USA and other countries abroad; and
- (6) in liaison with the Commissioner for Tourism, consider how to maximise the use of the TV film in order to help promote Hong Kong.

Response from the Administration

6.20 The Financial Secretary has said that:

- (1) he would like to recall again the exceptional circumstance under which the Harbour Fest proposal was approved. AmCham presented to the ERWG on 2 July 2003 its proposal to organise the Harbour Fest. The main objectives of the Harbour Fest were to encourage the return to normal economic activities, promote tourism and business, as well as boost morale and confidence in the local community after the outbreak of SARS. Having regard to the substantial benefits the Harbour Fest would bring to Hong Kong and after examining the budget, the ERWG considered the proposal worth supporting on 2 July 2003, and approved on 12 July 2003 the proposal for the Government to underwrite the net deficit of the Harbour Fest in the form of a sponsorship fee not exceeding \$100 million;
- (2) as a sponsor, the Government is satisfied that the main deliverables of Harbour Fest have been fulfilled. With hindsight, the Administration accepts that there is room for improvements with regard to the Harbour Fest project; and
- (3) the Administration takes note of the lessons to be learned and the recommendations in the Audit report. The challenge is how they should be applied when the Government is confronted with exceptional circumstances such as those prevailing in Hong Kong in the second and third quarters of 2003. If not because of the exceptional circumstance caused by the urgent need to relaunch Hong Kong after SARS, the Government might not have sponsored an event similar to that of Harbour Fest which was initiated and organised by a business association. The financial support to the Harbour Fest in the form of sponsorship from the Government (as part of the relaunch campaign) was a one-off exercise.

6.21 The **Director-General of Investment Promotion** has said that:

- (1) there is no dispute that these are all good practices, and the recommendations in paragraphs 6.7 to 6.18 serve as useful reference for managing large-scale, innovative government projects, especially for those involving substantial amounts of public money. However, the Harbour Fest was **not** a government project. It should be appraised in the context of a sponsorship arrangement between the Government and AmCham, having regard to the unique background of the economic relaunch campaign (see also Audit's views on the need for project monitoring in para. 3.2); and
- (2) he fully accepts Audit's recommendations in paragraph 6.19 on the follow-up actions to be taken by InvestHK. Indeed, many of them are already in hand. He also accepts many of the Audit's conclusions about the conduct of the Harbour Fest event itself, except in respect of those criticisms which have as their underlying basis that the Government was a co-organiser rather than a sponsor and those which have not fully reflected the constraints the Administration faced given the unique circumstances at the time (see also Audit's views in Note 3 of para. 1.16(f)).

Summary of the relief and economic revival measures

The measures to relieve the impact of SARS on the economy under the economic relief package announced by the CE on 23 April 2003 are summarised below:

- (a) In order to lower the operating costs for the various affected sectors, the Government would waive the rates, water charges and sewage charges and trade effluent surcharges for one quarter, or four months. Rent concessions for one quarter would be made to most commercial tenancies in public housing estates and certain tenancies managed by government departments. This rent reduction would be from 30% to 50%. The total concession would be approximately \$1.09 billion.
- (b) The Government would waive licence fees for most of the affected sectors for one year, including tourism, catering, entertainment, public light buses, school buses and tourist coaches. The concession altogether was \$280 million.
- (c) The Government would waive the rates, water charges and sewage charges for the general public for one quarter, or four months. The concession amount was \$1.77 billion. The Government would also rebate to the taxpayers part of the salaries tax, amounting to approximately \$2.3 billion.
- (d) The Government would set up a \$3.5 billion loan guarantee scheme for industries badly hit by SARS. Under the scheme, the Government would provide guarantee for loans by participating lending institutions to operations in those industries for payment of their employee salaries. This would protect employment.
- (e) The Government would create 21,500 training places and temporary jobs to step up service training for various affected sectors. The workers would provide home cleaning and maintenance services to the needy elderly and the disadvantaged, and to clean up Hong Kong. The expenditure earmarked for this was \$430 million.
- (f) **The Government would allocate \$1 billion to launch large-scale publicity and promotions internationally and locally when SARS was brought under control to help bring various trade activities back to normal.**
- (g) The Government would allocate \$1.3 billion for medical research and enhancing public health as longer-term measures to control SARS. The Government would also apply for allocation of \$200 million to provide assistance and professional training for health care workers.
- (h) In the next six months, the Government would not propose any adjustment to government fees and charges.

Source: Government press release dated 23 April 2003

Membership and terms of reference of the Economic Relaunch Strategy Group

I. Chairman

Financial Secretary

II. Members

- Dean of School of Business and Management, Hong Kong University of Science and Technology;
- President of Chinese Manufacturers' Association of Hong Kong;
- Chairman of Hong Kong Tourism Board;
- Lecturer, Division of Social Studies, City University of Hong Kong;
- Chairman of Hong Kong Airport Authority;
- President of Hong Kong Japanese Chamber of Commerce and Industry;
- Chairman of Federation of Hong Kong Industries;
- Chairman of British Chamber of Commerce in Hong Kong;
- Chairman of The European Chamber of Commerce in Hong Kong;
- Chairman of Hong Kong General Chamber of Commerce;
- Chairman of The Hong Kong Association of Banks;
- Chairman of American Chamber of Commerce in Hong Kong;
- Vice-Chairman of Chinese General Chamber of Commerce;
- Executive Director of Hong Kong Federation of Youth Groups;
- Chairman of Hong Kong Trade Development Council;
- Chairman of Hong Kong Policy Research Institute Limited;
- Chairman of Hong Kong Retail Management Association;
- Chief Executive of The Better Hong Kong Foundation;

- Vice-Chairman of Hong Kong Chinese Enterprises Association;
- Secretary for Commerce, Industry and Technology;
- Secretary for Economic Development and Labour;
- Secretary for Financial Services and the Treasury;
- Secretary for Home Affairs;
- Director of the Chief Executive's Office; and
- Director of Information Services

III. Secretary

Director-General of Investment Promotion

IV. Terms of reference

- (a) To advise the Government on the measures needed to relaunch Hong Kong once the outbreak of SARS has been brought under control.
- (b) To assist the Government to prepare and implement a comprehensive programme of relaunch activities.

Source: FA Panel Papers

Membership and terms of reference of the Economic Relaunch Working Group

I. Chairman

Financial Secretary

II. Members

- Secretary for Commerce, Industry and Technology;
- Secretary for Economic Development and Labour;
- Secretary for Financial Services and the Treasury;
- Secretary for Home Affairs;
- Director of the Chief Executive's Office; and
- Director of Information Services

III. Secretary

Director-General of Investment Promotion

IV. Terms of reference

- (a) To advise the Chief Executive on the measures needed to relaunch Hong Kong once the outbreak of SARS has been brought under control.
- (b) To prepare and oversee implementation of a comprehensive programme of relaunch activities that will revive economic growth in Hong Kong.

Source: FA Panel Papers

Chronology of key events

- March 2003 to June 2003 The SARS epidemic in Hong Kong affected some 1,755 individuals, including 300 deaths.
- 23 April 2003 To respond to the consequences of SARS, the CE announced a package of relief measures amounting to \$11.8 billion. Of this amount, \$1 billion was set aside to launch large-scale publicity and promotions to help bring various economic activities back to normal.
- 12 May 2003 The FS informed the FA Panel Members that two ad hoc bodies, the ERSG and the ERWG, were established. The ERSG, which comprised government officials, members of the business community, academics and other relevant parties, was responsible for giving advice on the strategic approach for relaunching Hong Kong. The ERWG, which comprised the same government officials as the ERSG, was responsible for overseeing and coordinating the implementation of the various relaunch programmes.
- 29 May 2003 The Administration briefed the FA Panel on its proposal to seek the approval of the FC of LegCo for the creation of a new commitment of \$1 billion to provide funds for the Relaunch Campaign.
- 30 May 2003 The FC approved the financial proposal for the Relaunch Campaign. The DGIP is the Controlling Officer responsible for administering the \$1 billion commitment for the Campaign, in accordance with directions of the ERWG.
- 5 June 2003 AmCham presented to the DGIP a proposal to organise a large-scale international entertainment festival called "*Hong Kong International Autumn Festival*" (subsequently renamed the Harbour Fest) at the Tamar site in October/November 2003.
- 20 June 2003 The DGIP informed the ERSG of AmCham's proposal.
- 26 June 2003 At an informal meeting between representatives of the Government and AmCham, the concept of the Harbour Fest was considered great but rather ambitious. It was suggested that AmCham should make a formal presentation to the ERWG.
- 2 July 2003 AmCham presented the proposal to organise the Harbour Fest to the ERWG. The ERWG agreed to support the proposal in principle, subject to InvestHK's scrutiny and satisfaction of the detailed budget. At the meeting, the Commissioner for Tourism said that sufficient lead time must be available for the marketing of the Harbour Fest.

- 6 July 2003 AmCham submitted to the Government a “*Confidential Budget Overview*”. In the budget, AmCham priced the tickets at a relatively low level (\$100 and \$150), thus assuming a close to full-house attendance (80% to 100% of around 12,000 seats). The estimated revenue generated (including ticket sales, television rights and commercial sponsorship for the Harbour Fest) was \$16 million. The estimated expenditure was \$116 million. The estimated net deficit to be covered by government subsidies was \$100 million.
- 12 July 2003 The ERWG approved a maximum of \$100 million to InvestHK for underwriting the Harbour Fest. At the meeting, the Director of Leisure and Cultural Services said that ticket prices should be pitched at the market level to raise revenue. The Chairman emphasised that the Government would act as the sponsor only, and AmCham had to plan, organise and implement the whole event.
- 31 July 2003 The Government and AmCham entered into an MOU to provide for the first instalment payment (\$25 million) of the sponsorship fee.
- 1 August 2003 AmCham briefed the ERSG on the Harbour Fest. The Chairman of ERSG urged AmCham to solicit the HKTB’s assistance to help promote the Harbour Fest.
- 4 August 2003 The Government made the first instalment payment of \$25 million to AmCham.
- 13 August 2003 AmCham entered into an MOU with Red Canvas Limited (the Special Purpose Vehicle of AmCham). Under the MOU, Red Canvas Limited shall be responsible for organising, managing, convening and promoting the Harbour Fest in the manner agreed with AmCham.
- 29 August 2003 The Government and AmCham entered into an MOU to provide for the second instalment payment (\$25 million) of the sponsorship fee.
- 1 September 2003 The Government made the second instalment payment of \$25 million to AmCham. On the same day, AmCham provided the ERSG a progress update on the Harbour Fest.

- 22 September 2003 AmCham produced an “*Indicative Budget*” for the Harbour Fest. In the budget, AmCham had, as advised by the ERWG, revised the ticket prices and, at the same time, adjusted downwards its original assumption of “*close to full-house*” attendance for all performances to an average attendance rate of 50%. According to the revised budget, the estimated revenue was \$59.1 million and the estimated expenditure was \$136.2 million. The estimated shortfall was \$77.1 million.
- 3 October 2003 The Government and AmCham entered into an MOU to provide for the third instalment payment (\$25 million) of the sponsorship fee. On the same day, the Government made the third instalment payment to AmCham.
- 10 October 2003 The Government and AmCham entered into a full agreement in relation to the Harbour Fest. Under the Agreement, AmCham shall prepare and submit to the Government information including the Business Plan, the Budget, a review of the Budget and audited accounts in relation to the Harbour Fest not later than 28 February 2004.
- 11 October 2003 The FA Panel of LegCo held a special meeting. At the meeting, the FS gave the Panel an update on the activities carried out under the Relaunch Campaign. The FA Panel was first briefed about the government sponsorship for AmCham to organise the Harbour Fest. At the meeting, Panel Members expressed grave concern on the cost-effectiveness of the Harbour Fest and raised questions on the organisation of the Harbour Fest.
- 15 October 2003 The Government made the final instalment payment (\$25 million) of the sponsorship fee to AmCham. On the same day, the DGIP and AmCham Chairman conducted a press conference to explain the reinstatement of the Rolling Stones concerts.
- 17 October 2003 The Harbour Fest began with the Prince concert. Some 1,500 free tickets were distributed by the organiser to the staff of the Hospital Authority for their efforts in combating SARS.
- 22 October 2003 The Harbour Fest organiser announced that because a member of the pop act (Atomic Kitten) was sick and unable to perform in Hong Kong, the concert was turned into a free show. All the free tickets were distributed in 35 minutes.

31 October 2003	The ERWG held a meeting on the Harbour Fest. The Chairman admitted at the meeting that all the parties concerned might have underestimated the complexity involved, and it was a very ambitious attempt in putting together the event within a short time span.
5 November 2003	At a LegCo meeting, the FS announced that the Government would set up a panel of inquiry to investigate the handling of the Harbour Fest.
9 November 2003	The Harbour Fest concluded with the Rolling Stones concert, which was played to a nearly full house.
15 November 2003	The FA Panel held a special meeting on the Harbour Fest. According to the provisional outturn submitted at the meeting, the revenue generated for the Harbour Fest was \$52.9 million and the expenditure was \$152.9 million. The estimated net deficit to be covered by government subsidies was \$100 million. In the same meeting, DGIP reported to the FA Panel that AmCham had already secured broadcast for the TV film by ABC network in the USA.
12 December 2003	The CE appointed a non-statutory independent panel of inquiry, comprising two members. The panel would submit its report to the CE by 31 March 2004.
22 January 2004	The one-hour TV film was aired on MTV2 network in the USA.
25 January 2004	The TV film was re-aired on MTV2 network in the USA.
8 February 2004	The TV film was re-aired on MTV network in the USA.
10 February 2004	The Panel of Inquiry announced that the deadline for its submission of a report to the CE had been extended to 30 April 2004.
27 February 2004	AmCham submitted to the Government the audited financial statements of its Special Purpose Vehicle (i.e. Red Canvas Limited) for the year ended 31 December 2003. According to the audited accounts, the total revenue was \$55.2 million (not including the government sponsorship fee of \$100 million) and the total expenditure was \$155.8 million.

Note: A separate chronology of key events relating to the Rolling Stones saga is shown in Table 5 in paragraph 4.23.

Excerpts from media reports

Local media:

- **“Public money requires a public accounting.** The good intentions of InvestHK and AmCham cannot be doubted.The questions that critics are asking have more to do with how money for the event is being allocated and how well it is being spent.the people of Hong Kong do deserve a full and detailed accounting if they want one. Thus it is disappointing to hear that no such information is forthcoming.....” (South China Morning Post, 12 September 2003);

- **“A festive event that has lost its festiveness and resulted in a waste of public money.** No doubt, the Prince and the Rolling Stones are world-famous artists. Their performances in Hong Kong should have been a festive event and a tourist attraction. Nevertheless, because of inadequate organisation, insufficient promotion and confusing information, these performances and the Harbour Fest as a whole led to strong disapproval from the public and became a laughing stock instead. These problems further put off the audience and the public. It’s no wonder that the public is disappointed and feels bitter.....” (Apple Daily, 18 October 2003);

- **“Prompt remedial action is needed.** THE disorganisation of Harbour Fest is increasingly glaring. Its tickets do not sell well. No distinction is drawn between seats differently priced. Some singers have pulled out at the eleventh hour. Such things have led to sufficient negative publicity..... People cannot but worry that Hong Kong may suffer a double loss – lose money and its reputation.....” (Ming Pao, 23 October 2003);

- **“Malpractices in the Harbour Fest must be looked into.**Undoubtedly, the idea and motive of organising the Harbour Fest were positive. No one would and should doubt the sincerity of AmCham to assist HK to revive its economy after SARS. However, the incident exposed a complete lack of transparency in the course of the project. Everything was done in a “black box”. The public knew nothing about the negotiation between the Invest Hong Kong and AmCham, how the funding was provided, how the cost of the show was underwritten and how the ownership of the intellectual property was defined. The public had no idea of what was going on while the legislators might have some idea.....” (Ta Kung Pao, 29 October 2003);

- **“Recurrence of chaos in the Harbour Fest must not be allowed.**There has been so much negative coverage on the Harbour Fest and the outcome of the show was far from satisfactory. It is clear that the Government has failed to appoint the right organisation to do the job..... The contract between the Government and AmCham

- which granted the right for AmCham to hold the show for five years was extremely unreasonable..... The department concerned did not have a thorough understanding of the Harbour Fest. Nor did it assess the implication and outlook of the event properly.....” (Wenweipo, 29 October 2003);
- **“Pathetic crisis management.** UNENDING unfavourable reports on Harbour Fest have badly damaged Hong Kong’s reputation, but the SAR government has made no serious efforts to manage the crisis. In particular, it has failed to make a good job of giving the public and the media information. Therefore, doubts have kept arising, and the scandal has snowballed. People cannot but suspect the SAR government is not capable of gauging public sentiment or coping with contingencies.....” (Ming Pao, 31 October 2003);
 - **“Harbour Fest’s politics and liability for administration.** Hong Kong Harbour Fest has become a laughing stock..... From the viewpoint of crisis management, the government has acted badly, allowing the scandals to snowball. Even there is much news from insiders, the government does not take immediate action to clarify the rumours such as wasting taxpayers’ money, conflict of interest, etc. The accountability system has lots of loopholes, too. It is clear that the department head has to bear the liability for the administration.....” (Hong Kong Economic Journal, 3 November, 2003);
 - **“The chaotic arrangement for and sloppy financial statement of the Harbour Fest must be looked into to ascertain where the responsibility lies.**The community has expressed great dissatisfaction with the Harbour Fest for some time. However, the criticism at the time mainly focused on the chaotic arrangement and insufficient promotion for the show, in particular, the scandal about the Rolling Stones who first rejected to perform but changed their minds. But, by now, it seems that the sloppy financial statement is far more shocking than the chaotic arrangement. It is hard to believe that a concert would incur a loss of \$100 million.....” (Hong Kong Oriental Daily, 16 November 2003);
 - **“Taxpayers hit with \$100m bill for Harbour Fest.** Hong Kong taxpayers will have to pay the full \$100 million set aside for the Harbour Fest since revenue from the controversial music extravaganza failed to meet initial targets..... The final balance sheet has still to be drawn up, but preliminary figures released by the government yesterday revealed the event pulled in \$52.9 million, while costs soared to \$152.9 million — \$36 million more than original planned. The costs included the fees for each act, which have not yet been specified.....” (South China Morning Post, 16 November 2003);

- **“Harbour Fest Rings the Alarm: Gloomy Future without Changing Management.** Throughout the process from concept development, implementation to post-event wrap-up of the Harbour Fest, the weaknesses of the Government were reflected in terms of its management thinking, public administration, crisis management and handling of faults in policies..... It is clear that Invest Hong Kong did not put sufficient efforts in overseeing the organisation of the Harbour Fest project to ensure smooth implementation and strong publicity of the events. Transparency was not found in the actions of handling the project over to the Thompson’s company and negotiation with AmCham.....” (Hong Kong Economic Times, 19 November 2003);

Overseas media:

- **“No Joy in the Harbour Fest.**In recent days, a series of concerts organised by the AmCham in Hong Kong has become the laughing-stock of the territory. From cancelled acts to the desperate distribution of free tickets to fill empty seats, and even the removal of some seats in a futile effort to make the event look sold out, Hong Kong’s ‘Harbour Fest’ has been plagued by one mishap after another.....” (Asian Wall Street Journal, 22 October 2003);
- **“The festival has become a lightning rod for disgruntlement with the Hong Kong government.** Not everything has gone wrong with Harbour Fest, a series of 15 government-funded rock concerts intended to trumpet to the world that Hong Kong is completely over the SARS outbreak of last spring. It has a handsome venue beneath incandescent skyscrapers and world-class acts such as Prince and Santana have played. The Rolling Stones are due this week. But the festival has become a lightning rod for disgruntlement with the Hong Kong government. Taxpayers realise they’re picking up the tab, and many feel that buying a ticket is like paying twice, so attendance has been poor.....” (Time Magazine (Asia), 10 November 2003); and
- **“HK taxpayers to pay HK\$100 million for Harbour Fest.** HK taxpayers are expected to foot the HK\$100 million (US\$ 12.8 million) bill for a poorly attended music festival that was aimed at boosting the territory’s economy and morale but turned out to be a flop. The government-sponsored Harbour Fest, which ended last weekend, angered taxpayers because of confusion over an appearance by the Rolling Stones, half-empty seats, the hefty fees charged by Western acts and last-minute cancellations by several performers.....” (Reuters News, 15 November 2003).

Source: InvestHK press clippings

Analysis of utilisation of concert capacity

Date of concert (in 2003)	Concert	Capacity	Tickets sold	Free tickets (Note)	Audience turnout	Audience attendance rate
		(a)	(b)	(c)	(d)=(b)+(c)	(e)=(d)÷(a)
17 October	Prince and Karen Mok	11,751	5,124	5,347	10,471	89%
18 and 19 October (day)	Family Fest (2 concerts)	26,302	12,632	3,377	16,009	61%
18 October	Craig David	13,151	4,218	2,722	6,940	53%
20 October	Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra	13,151	4,811	967	5,778	44%
24 October	t.A.T.u and Twins	13,151	Nil	12,494	12,494	95%
25 October	Westlife, Energy and eVonne Hsu	13,151	5,958	473	6,431	49%
26 October	Air Supply, Eason Chan and Ronald Cheng	13,151	7,514	783	8,297	63%
30 October	Gipsy Kings, Danny Diaz and Hyo-Ri Lee	13,151	4,119	503	4,622	35%
31 October	Asian All-Star Night	13,151	1,994	2,742	4,736	36%
1 November	Santana and Andy Hui	13,151	11,457	695	12,152	92%
2 November	Gary Valenciano (2 concerts)	26,302	4,092	2,202	6,294	24%
6 November	Neil Young and Michelle Branch	13,151	4,636	3,200	7,836	60%
7 and 9 November	Rolling Stones (2 concerts)	24,682	22,000	1,812	23,812	96%
	Overall	207,396	88,555	37,317	125,872	61%

Source: InvestHK records

Note: Free tickets included those tickets distributed for the free concert held on 24 October 2003.

Appendix G
(para. 4.10 refers)

Breakdown of the distribution of free tickets by concerts

Date of concert (in 2003)	Concert	Sponsors	Media	HAD and Community Chest	Hospital Authority	Band/Promoter	Promotion	Hotels	Schools	Production	Complimentary/ Others (Note 1)	Free concert	Total
17 October	Prince and Karen Mok	160	18	—	1,500	390	22	—	352	—	2,905	—	5,347
18 and 19 October (day)	Family Fest (2 concerts)	260	16	2,763 (Note 2)	—	290	48	—	—	—	—	—	3,377
18 October	Craig David	160	18	—	—	591	22	4	—	—	1,927	—	2,722
20 October	Jose Carreras, Charlotte Church and Hong Kong Philharmonic Orchestra	160	18	—	—	62	18	45	—	—	664	—	967
24 October	t.A.T.u and Twins	—	—	—	—	—	—	—	—	—	—	12,494	12,494
25 October	Westlife, Energy and eYonne Hsu	160	98	—	—	100	28	24	—	10	53	—	473
26 October	Air Supply, Eason Chan and Ronald Cheng	160	128	—	—	35	28	62	—	12	358	—	783
30 October	Gipsy Kings, Danny Diaz and Hyo-Ri Lee	160	98	—	—	134	28	30	—	12	41	—	503
31 October	Asian All-Star Night	160	98	—	—	450	28	102	—	54	1,850	—	2,742
1 November	Santana and Andy Hui	160	58	—	—	68	28	22	—	19	340	—	695
2 November	Gary Valenciano (2 concerts)	320	228	—	—	577	44	12	—	—	1,021	—	2,202
6 November	Neil Young and Michelle Branch	160	98	—	—	161	26	76	—	13	2,666	—	3,200
7 and 9 November	Rolling Stones (2 concerts)	320	68	—	—	100	34	8	—	431	851	—	1,812
	Total	2,340	944	2,763	1,500	2,958	354	385	352	551	12,676	12,494	37,317

Source: InvestHK records

Note 1: No further breakdown was provided by AmCham for this category.

Note 2: AmCham had issued 6,600 free tickets to HAD and Community Chest. However, AmCham considered that due to time constraints, not all the free tickets could be adequately distributed. Therefore, AmCham reduced the number of free tickets issued by 3,837 to reflect that there were 2,763 attendees at the two concerts.

Audit surveys on the Harbour Fest

In November/December 2003, Audit conducted two surveys to collect the public and audience's opinion on the Harbour Fest. Details of the two surveys are given below.

PUBLIC OPINION SURVEY (paras. 2 to 18)

2. This survey, held from 27 November 2003 to 10 December 2003, was conducted to gauge the general public's opinion on the Harbour Fest. The survey focused on the following main areas:

- perception of the general public on the effectiveness of the Harbour Fest (see paras. 4 and 5 below);
- a dollar-value appraisal of the Harbour Fest (see paras. 6 to 8 below);
- appraisal by the general public on the operation of the Harbour Fest (see paras. 9 to 11 below);
- ascertaining reasons for going/not going to the Harbour Fest (see paras. 12 to 16 below); and
- ascertaining audience's evaluation of the Harbour Fest concerts (see paras. 17 and 18 below).

3. Through the survey, Audit successfully interviewed 2,026 residents of Hong Kong who were aged 15 or above. Respondents were contacted through randomly selected residential telephone numbers that were mixed with additional numbers generated by the computer.

Perception of the general public on the effectiveness of the Harbour Fest

4. The survey started by gauging people's perception on the overall success of the Harbour Fest. The result showed that **60%** of the respondents considered that the event was unsuccessful as a whole, as opposed to only **8%** who considered the event as successful. There were 18% who took a neutral view and 14% declined to comment.

5. The Harbour Fest was considered not a general success. It was not successful in reviving Hong Kong's economy. It was not successful either in attracting tourists to Hong Kong or in improving Hong Kong's international image. Some **36%** of respondents considered that the Harbour Fest failed to demonstrate to the world that Hong Kong had gone out of the SARS shadow, versus **32%** of respondents perceived the event as successful in this respect. See Table below.

Public perception of the success of Harbour Fest

Harbour Fest	Positive	Negative
(a) Harbour Fest was a general success	8%	60%
(b) Harbour Fest was successful in reviving Hong Kong's economy	15%	56%
(c) Harbour Fest was successful in attracting tourists to Hong Kong	25%	43%
(d) Harbour Fest had improved Hong Kong's international image	23%	42%
(e) Harbour Fest demonstrated to the world that Hong Kong had gone out of SARS shadow	32%	36%

A dollar-value appraisal of the Harbour Fest

6. The survey continued by measuring the respondents' perception on whether the Government's expenditure on three particular leisure and cultural activities, namely Hong Kong Harbour Fest, the visit of Real Madrid Football Club and the annual Hong Kong Arts Festival (HKAF) were good value for money.

7. The result revealed that, of the three events, a landslide majority of **79%** of the respondents agreed that the contribution of \$0.82 million for the visit of Real Madrid Football Club was good value for money, whereas only **15%** thought it was not good. Similarly, almost two-thirds (**65%**) of them said the \$17 million spent on the annual HKAF was good value for money, as against 18% who said "no". On the other hand, **only 15% regarded the \$100 million contributed on the Harbour Fest to be good value for money, whilst as high as 79% said "no"**. See Table below.

Public perception of the value for money for the three events

Event (and cost implications)	Cost per citizen (\$)	Positive	Negative
(a) Harbour Fest (\$100 million)	15.0	15%	79%
(b) Hong Kong Arts Festival (\$17 million)	2.6	65%	18%
(c) Real Madrid Football Club (\$0.82 million)	0.1	79%	15%

Note: The balance percentage after deducting the positive and negative percentages from 100% represents respondents who did not know or declined to comment.

8. The Government allocated \$1 billion to launch post-SARS promotional campaigns, representing a spending of \$150 by each Hong Kong citizen, based on a population of 6.5 million people. As the Government had spent \$100 million on the Harbour Fest, each citizen had to bear \$15. In the survey, when asked to suggest how much should a single citizen contribute to organising an event like the Harbour Fest, 31% of the respondents considered that the Government should spend more than \$15 per citizen on such events, as against 44% who said it should not be more than \$15. A quarter of the respondents (25%) did not answer the question.

Appraisal by the general public on the operation of the Harbour Fest

9. On the public's appraisal of the operation of the Harbour Fest, the result showed that as many as 70% of the respondents believed that insufficient promotional work was done for the Harbour Fest, as contrast to only 15% who said publicity was adequate. Regarding the venue for the festival, 59% said Tamar was an appropriate site for organising the Harbour Fest, while 22% considered it a bad choice.

10. On the perception to the idea of "*East meets West*" (i.e. their receptiveness to the idea of having the local and international artists performing on the same stage), 39% of the respondents said that they were receptive to the idea whereas 35% said that such an idea was bad. Another 17% took a neutral stand.

11. On the pricing of tickets, 55% of the respondents considered that the ticket prices were too high in general and 35% thought it was reasonable. Over half (51%) of the respondents opposed the Government's decision to give away the tickets of the concert for "*Atomic Kitten/t.A.T.u./Twins*" on 24 October 2003 for free, whereas 37% supported the arrangement. On enquiry on how they thought about the allocation of **four free tickets to each person**, 59% said "*too many*", 32% said "*just right*", whereas 2% considered the issue of four tickets per person as "*too few*".

Reasons for going/not going to the Harbour Fest

12. In order to ascertain the perceived reasons for the overall low attendance of the Harbour Fest, all respondents were asked to suggest possible reasons. The result revealed that 51% considered that it was due to insufficient promotions. Other popular reasons included "*inexperienced organiser/confusing arrangements*" (26%), "*performers not attractive enough*" (20%) and "*tickets too expensive*" (19%). 12% did not give a definite answer for this question.

13. A landslide majority of **96%** of the respondents interviewed did *not* attend any of the Harbour Fest concerts, whereas only **3%** (i.e. 71 respondents) said that they had attended, with an average of attending one concert each.

14. For **30%** of the respondents who did not attend any of the Harbour Fest concerts, “*tickets too expensive/no extra money*” was the reason for not attending any concert of the Harbour Fest. Other popular reasons included “*not interested in music festivals*” (**23%**), “*no time/too busy*” (**23%**) and “*performers not attractive enough*” (**21%**).

15. On the other front, the 71 respondents (i.e. 3% of respondents — see para. 13 above) who had attended the Harbour Fest concerts were asked to give reasons for their attendance. Over half (**51%**) said that they were attracted by the performers or the production of the Harbour Fest, **18%** said that they received a complimentary ticket and **13%** said that they attended for accompanying family members, friends, colleagues and classmates (Note).

16. To measure people’s receptiveness of organising *annual* music festivals like the Harbour Fest, all respondents were asked if they welcomed this idea. The result suggested that **57%** were not supportive, **33%** said “*yes*” and **10%** did not have a definite opinion.

Audience’s evaluation of the Harbour Fest concerts

17. This part of the survey was designed to measure the assessment of the Harbour Fest concerts by the audience, thus the following discussions were based only on the opinions of the 71 persons who attended the concerts (see para. 15 above).

18. To start with, these respondents were first asked to rate, using a scale of 0 to 100, their appreciation of the Harbour Fest concerts as a whole. **The average score was 62.** With respect to specific aspects of the concerts, **55%** of the Harbour Fest audience interviewed admitted that they were **satisfied** with the performers in general, **22%** expressed dissatisfaction, another **22%** opted for “*half-half*”. Similarly, among this sub-group of respondents, **71%** were **satisfied** with the overall production quality of the concerts, whereas only **12%** gave negative views on this particular area.

Note: *As only 71 respondents were covered in this sub-sample which is very small and may not be representative, figures should only be used for rough reference.*

AUDIENCE SURVEY (paras. 19 to 28)

19. This survey was held between 6 and 11 November 2003. Nine staff were deployed to hand leaflets to the audience of three Harbour Fest concerts, namely the “*Michelle Branch/Neil Young*” (6 November 2003 night) and the two Rolling Stones concerts (7 and 9 November 2003 night).

20. The leaflets, each printed with a unique code for identification purpose, were distributed at three locations, namely, the main entrance of the Tamar site, the Citic Tower, as well as the joint of Tim Mei Avenue and Lung Wui Road. A total of 12,065 leaflets were distributed, inviting the Harbour Fest audience to visit the prescribed website <http://hkupop.hku.hk/harbourfest> to complete an online survey questionnaire.

21. A total of 902 submissions were received as preliminary valid cases. Research teams then verified these 902 preliminary valid submissions. Firstly, 17 cases without personal particulars were dropped, and the remaining 885 cases entered the next stage. Eight cases with repeated leaflet codes were found. For these eight cases, only the last submission of each case was accepted. Another 156 cases with null leaflet codes were also dropped. As a result, a total of **721 valid cases** (i.e. $902 \text{ less } [17 + 8 + 156] = 721$) were left behind.

22. Among the 721 valid cases, there were 20 sceptical cases with repetitive Internet Protocol addresses. They were then examined in terms of their time chop, nature of their outgoing websites, and content of their submissions. Finally, three cases were confirmed to be repetitive and were eliminated from the dataset. The remaining **718 submissions** (721 less 3) were regarded as the final sample size.

23. Due to the very low response rate (some 700 submissions received among 12,000 leaflets distributed), significant systematic bias was bound to have occurred, and the quantitative responses reflected herewith would not be representative of all Harbour Fest audience. However, as many of the respondents had expressed opinions about the Harbour Fest in answer to an open-ended question, the result is useful. Their opinions given are summarised below.

Summary of open-ended opinions

24. Audit received a total of 530 opinions expressed by the respondents under the question “*Please list all problems, suggestions and opinions about HK Harbour Fest which you would like us*”

to know” of the online survey. The opinions could be consolidated into three major areas, namely, the positive views, the negative views, and other comments.

25. On a macro level, the audience of the three particular concerts expressed satisfaction with the fundamental concept of organising the Harbour Fest, a cultural event which aimed at promoting Hong Kong’s image and reviving the local economy. However, because of its many perceived shortcomings in the pre-preparation work and operational arrangements, some respondents also voiced negative opinions.

26. Positive views given are summarised as follows:

- (a) ***Good idea made but carried out by an inexperienced organiser.*** Most respondents found the fundamental concept of organising the Harbour Fest good and essential, as large-scale cultural activities of such kind was lacking in Hong Kong. However, many respondents said the lead time was too short, and perceived the organiser, being a layman in holding music festivals, to be an inappropriate choice of organiser for this event. For example, the organiser was criticised as failed to cater for the local Chinese audience, by making wrong choices in picking performers. It was suggested that similar events should be organised by local or international entertainment producers in future;
- (b) ***Tamar was a good choice of location for holding the festival, but there was room for improvement.*** Most respondents perceived Tamar an appropriate site for organising the Harbour Fest, with a magnificent backdrop of the Victoria Harbour and the skyline, which was a unique attraction of Hong Kong. Many of them recommended making Tamar a permanent location for holding forthcoming events of such kind. Nevertheless, some of them expressed dissatisfaction with the inconvenience caused by the relatively long walk from the Mass Transit Railway stations to Tamar, and the admission time was also regarded as too long. Moreover, crowd control needed to be improved. Besides, some respondents showed concerns about the contingency arrangement in case of bad weather; and
- (c) ***The Harbour Fest should be held as an annual event.*** A majority of the respondents showed enthusiasm in watching the Harbour Fest concerts again. Many of them encouraged the Government to organise this music festival on a yearly basis, as it would not only enhance the overall cultural atmosphere of the local society, but also benefit the local economy.

27. On the other hand, negative opinions could also be consolidated into the following key points:

- (a) ***Insufficient prior promotions.*** A landslide majority of the respondents considered the promotional work done for the Harbour Fest as seriously inadequate on the whole and many of the respondents commented that they were not even aware of the ticketing arrangements. Most respondents suggested more efforts should have been paid on the promotion and publicity campaign, especially on the details of the performers and programme schedule. Some recommended the future organiser to seek reference from the HKAF in terms of promotional strategies. Besides, many respondents also urged for overseas advertising of this music festival, so as to draw more tourists to visit Hong Kong for this event;
- (b) ***Tickets too expensive.*** Many respondents admitted that the general pricing of the Harbour Fest tickets were too high for the general public of local Chinese people. This was particularly so for the younger generations who simply could not afford the high ticket fees. The scheduling of the concerts was also regarded as overly-packed in a very short time span, making it rather unrealistic for people to consume many concerts in a row. Again, the HKAF was cited by many respondents as a reference for proper programme scheduling;
- (c) ***The idea of “East meets West” did not work.*** The performers were by and large well received by the audience. Nonetheless, with respect to the much-publicised feature of the Harbour Fest, which was the “*crossover*” of local talents with international performers, the audience commented that such an idea was not as interesting as expected, owing to the fact that the local and international artists were just performing on the same stage literally, rather than performing “*together*” during the concerts. On the other hand, a majority of them also believed that the local and international performers should not be put together at the same concert in the first place, because they simply appealed to different target audience; and
- (d) ***Disappointing catering services.*** Practically all respondents who commented on the catering services provided in the venue gave a negative view on this front, as very long queuing time (between 45 minutes and one hour) was needed for buying beverages during the concert. Most of them asked for more beer stalls. The overall hygiene condition of the portable toilets was considered as fairly acceptable, but many respondents said more toilets should have been set up in the venue.

28. Finally, it was also noteworthy that many respondents of the three concerts believed the overall success of the Harbour Fest was, to a great extent, adversely affected by the many reports from the local news media, coupled with the criticisms made by the LegCo Members. Most respondents thought these negative coverage and open remarks were unfair and unjustified, which had given the event a bad name and scared off the general public, resulting in an overall dissatisfied attendance.

Acronyms and abbreviations

ABC	American Broadcasting Company
AmCham	American Chamber of Commerce in Hong Kong
APIs	Announcements in the Public Interest
Audit	Audit Commission
CBS	Columbia Broadcasting System
CE	Chief Executive
DGIP	Director-General of Investment Promotion
ERSG	Economic Relaunch Strategy Group
ERWG	Economic Relaunch Working Group
FA Panel	Panel on Financial Affairs
FC	Finance Committee
FS	Financial Secretary
HAD	Home Affairs Department
HKAF	Hong Kong Arts Festival
HKTB	Hong Kong Tourism Board
InvestHK	Invest Hong Kong
ISD	Information Services Department

Acronyms and abbreviations

LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
MOUs	Memoranda of understanding
MTV	Music Television
NBA	National Basketball Association
NBC	National Broadcasting Company
SARS	Severe Acute Respiratory Syndrome
WHO	World Health Organisation