

ITEM FOR FINANCE COMMITTEE

**HEAD 152 – GOVERNMENT SECRETARIAT :
COMMERCE AND ECONOMIC DEVELOPMENT
BUREAU (COMMERCE, INDUSTRY AND TOURISM
BRANCH)**

Subhead 700 General non-recurrent

New item “Non-recurrent Funding for the Ocean Park Corporation”

LOAN FUND

HEAD 274 – TOURISM

Subhead 121 Loan for the Ocean Park Redevelopment Plans

Subhead 122 Loan for the Ocean Park’s Tai Shue Wan Development Project

Members are invited to approve –

- (a) a new non-recurrent commitment of \$1,664 million under Head 152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch) Subhead 700 General non-recurrent for providing funding to the Ocean Park Corporation to support its operation and implementation of the future strategy for Ocean Park; and
- (b) amendments to the terms under Loan Fund Head 274 Tourism Subhead 121 Loan for the Ocean Park Redevelopment Plans and Subhead 122 Loan for the Ocean Park’s Tai Shue Wan Development Project.

/PROBLEM

PROBLEM

The Ocean Park Corporation (OPC) needs financial support from the Government to sustain its operation in the short to medium term in the face of the prolonged uncertainties posed by the Coronavirus Disease 2019 (COVID-19) pandemic and as it embarks on the implementation of the future strategy for Ocean Park (OP) to achieve financial sustainability in the long run. Timely approval of the proposal in paragraph 2 below is essential, or the OPC would become cash negative by the third quarter of 2021 the earliest and would go bust as a result. There will be no prospect for the OPC to take forward the OP future strategy, or to open the Water World in summer 2021 as undertaken in the 2020 Policy Address.

PROPOSAL

2. We propose to –
- (a) provide a non-recurrent funding of \$1,664 million to the OPC to support its operation and the implementation of the future strategy for OP; and
 - (b) amend the terms of the Loan for the Ocean Park Redevelopment Plans¹ (MRP Government Loan) and Loan for the Ocean Park's Tai Shue Wan Development Project (TSW Government Loan) to –
 - (i) waive interest with effect from 1 July 2021;
 - (ii) defer the commencement date of OPC's repayment by seven years, from September 2021 to September 2028;
 - (iii) defer the date of final maturity to March 2059, thereby extending the repayment period from 10-12 years² to 31 years; and
 - (iv) reserve the Government's discretion to adjust the amount of repayment by the OPC each year and to require the OPC to advance the repayment, after consultation with the OPC, based on the general principle that after allowing the OPC to maintain its minimum cash reserve and set aside resources necessary for meeting its future capital expenditure requirement, the OPC is required to make use of its surplus cash to repay outstanding loans and interest owed to the Government.

/JUSTIFICATION

¹ The Ocean Park Redevelopment Plans is also referred as the Master Redevelopment Plan (MRP).

² The original repayment periods of MRP Government Loan and TSW Government Loan are 10 and 12 years respectively.

JUSTIFICATION

Rethink Exercise

3. OP was established in 1977. Under the Ocean Park Corporation Ordinance (Cap. 388), the OPC manages OP as a public recreational and educational park. The OPC is required to apply all its profits towards the promotion of its statutory functions. With intensifying regional competition and the lack of new major attractions since its last major redevelopment completed in 2012, OP is in need of repositioning. The OPC therefore embarked on a repositioning exercise for OP in 2018 which culminated in the Strategic Repositioning Plan (SRP).

4. We presented the SRP and the related financial arrangements to the Legislative Council (LegCo) Panel on Economic Development (ED Panel) at its meeting on 20 January 2020. However, six days after the above meeting, OP was closed in light of the outbreak of the COVID-19 pandemic. COVID-19, which has since then hit Hong Kong and the rest of the world, has given rise to new circumstances which cast doubts on the commercial viability of the SRP. We decided that it would not be prudent to pursue the SRP any longer and that we should embark upon a critical and comprehensive rethink on the future of OP and chart the way forward for its future development. With a complete open mind, the rethink comprehensively re-examines the strengths and weaknesses of the Park and how to tackle the challenges it faced in its operation and development, including reviewing its mode of operation, financing sources, and statutory functions, etc.

5. As the OPC was in dire financial situation and on the verge of insolvency back then, to tide it over and create a window for the rethink, we sought the approval of the Finance Committee (FC) in May 2020 (FCR(2020-21)15 refers) for the following financial arrangements –

- (a) a funding of \$5,425.64 million to the OPC to support the operation of OP for one year (covering its operating and capital expenditure for Financial Year³(FY) 2020-21 up to 30 June 2021), to repay the commercial loans of the OPC (including the related financing costs) and to settle the outstanding costs for completing the Tai Shue Wan Development Project, pending the completion of the rethink exercise; and
- (b) amendments to the terms of the MRP Government Loan and TSW Government Loan so that the repayments will commence in September 2021.

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³ “FY” refers to the financial year of the OPC which starts on every 1 July. Other term years in this paper refer to the fiscal year of the Government which starts on every 1 April.

6. At FC meetings, we listened carefully to the useful views of Members and through them, the views of the general public and various sectors of the community, on the future of OP. As set out in the information paper FCRI(2020-21)5, we have undertaken to chart the way forward for OP along the following directions –

- (a) OP should focus on leveraging its rich and leading experience in education and conservation, capitalising on its innate advantages, and devoting itself to relevant research and public promotion work;
- (b) OP should steer away from the conventional development model of theme parks, avoid making significant investment in amusement rides, reduce the scale of the Park, cut down on facilities and related expenses which are not cost-effective, and reorient its development focus back to education and conservation. It should also place greater emphasis on other elements, such as its unique natural setting including its hilly terrain and shoreline, in providing a better and unique experience for both our locals and visitors from afar; and
- (c) OP should develop further into a major resort and leisure destination and drive economic development in Hong Kong and the Southern District through synergising with other attractions in the vicinity of Southern District.

7. After obtaining FC's approval on 29 May 2020 for the financial arrangements and based on the directions as set out in paragraphs 5 and 6 respectively, the Government joined hands with the OPC to embark upon the rethink exercise with the assistance of a business consultant. Working together with the consultant, we undertook comprehensive engagement with various stakeholders, including members of the Southern District Council, the Tourism Strategy Group, entertainment and event management businesses, conventions and exhibitions sector, food and beverage sector, tourism sector, architectural, surveying, planning and landscape sectors, education sector, animal and conservation advocacy organisations, sports, and leisure and wellness communities, etc., through in-depth interviews, focus group sessions, market sounding out exercises, and quantitative survey, etc., to gather more views from various parties and formulate the future development plan.

8. We have completed the rethink exercise on schedule, and arrived at the conclusion that OP does have business potential. It is well-recognised for creating memorable experiences, thrill rides and animal attractions. Its efforts in conservation and animal care, which bring significant social benefits, are however not commonly known or promoted. Indeed, members of the public are rooting for OP to become a home-grown leader in conservation that drives positive impact in

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society through experiential learning and immersive education opportunities. They also want OP to be known as a revamped destination for leisure activities upon repositioning. Based on these findings, we have mapped out a future strategy for OP as set out in the ensuing paragraphs.

Future Strategy

Vision

9. In line with the directions set out in paragraph 6 above, we recommend that OP should transform into a destination which focuses on conservation and education, grounded in nature and complemented by adventure and leisure elements to enhance visitor experience. OP should deliver authentic experiences that are backed by research and science, proactively share its animal stewardship and environmental protection actions, and become an education platform for inspiring a sustainable lifestyle.

10. At the same time, in terms of positioning, OP should continue to provide entertaining experiences that highlight the natural beauty and local culture of Hong Kong featuring its scenic and geographical location. Conservation and education should integrate with entertainment and leisure elements, thereby offering a holistic experience. OP should also achieve synergy with the Southern District and feature Hong Kong's unique elements.

Key Components

Encl. 1 11. To realise the above vision, we propose various initiatives. Key components are set out at Enclosure 1.

Operation Mode and Staffing

12. To enable the OPC to focus on conservation and education, while ensuring OP would provide a unique leisure and entertainment experience for its visitors, we suggest a new mixed mode of operation in future.

13. For the new non-ticketed retail, dining, and entertainment (RDE) zone, in order to bring in the required expertise, capacity, and financial resources for developing large-scale RDE facilities which the OPC lacks, we recommend the OPC to tender out its development to private developer/operator(s) under a long term concession. The OPC may receive an upfront payment upon award of contract, and share rental income with the developer/operator(s) throughout the concession

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period, thereby subsidising its conservation and education initiatives. We expect the developer/operator(s) to bear all the costs for the planning, design, construction, management, maintenance, marketing and leasing of the RDE facilities as well as the related facilities in the zone (including public spaces and children's play area) and be solely responsible for any possible losses which might arise from their operation. This arrangement will allow the OPC to tap into the expertise available in the market, while shouldering limited risks and securing an additional source of income. Due to its strategic location and convenient accessibility, we consider that the RDE zone will have the potential to become a destination and a chill-out place for people who live or work in the Southern District nearby, thereby attracting more repeat visitors to the zone. It can also become a new centre for economic and tourism activities in the Southern District, leveraging its close proximity to the MTR Ocean Park Station, which is merely one stop and a five-minute ride away from the Admiralty Station, as well as Deep Water Bay. For the new adventure and wellness-themed zones, similar to the new RDE zone, we also recommend the OPC to leverage private sector interest and outsource them under a long term concession arrangement.

14. As for conservation and education, OP should capitalise on its experience and expertise accumulated over decades. We therefore recommend the OPC to continue to take charge and operate OP's conservation and education related facilities. This also reflects wishes of many stakeholders during our consultation. We do not have plans to transfer these functions to Government departments. We also recommend the OPC to continue to manage and maintain the Cable Car and Ocean Express as the key and integral infrastructure link the lower park and the upper park.

15. For the remaining attractions in the RDE zone as well as the existing core attraction zone, we suggest that the OPC should harness its know-how accumulated over the years to continue to manage and operate them. This will help ensure a more coherent branding and a consistent focus on conservation and education throughout the Park. Although under such arrangement the OPC will inevitably have to take up the maintenance and operation of amusement rides, with various ageing attractions to be demolished to make room for new development, such arrangement would not over-burden the OPC nor distract it from its focus on conservation and education. Alternatively, if private sector interest can be identified for operating individual attractions which are not directly related to conservation and education, provided that such party will collaborate with OPC's overall management of the Park, the OPC may also outsource such attractions.

16. In rethinking the way forward of OP, we have undertaken a market sounding out exercise and the result revealed that, based on our proposed initial plan, there are market interests in developing the RDE zone, adventure zone, and wellness-themed zones. If FC approves the proposed financial arrangements, the

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OPC will formulate details for the tendering exercise such as the specific operation requirements and facilities to be provided within the different zones. To ensure the integrity of the tendering exercises, we will not disclose commercially sensitive information such as the forecast amount of upfront payment as well as annual rent/revenue share.

17. The construction of the Water World will complete in the first half of this year and operation can commence in summer, COVID-19 permitting. We have considered whether the Water World should be outsourced to minimise the risks to be borne by the OPC. However, taking into account all relevant factors, including the projection that the Water World can achieve financial sustainability in its own right, and that the OPC has already employed a team of professional and experienced personnel to run the Water World, we recommend the OPC to take up its operation at least in the short to medium term. Also, any outsourcing will inevitably delay the launch day. Its timely opening would in contrast bring some income to the OPC and facilitate early public enjoyment of this world-class facility. In the long run, the OPC can further review the pros and cons of outsourcing the Water World.

18. With the opening up of the Park as well as the developments in and out of the Park, in particular the increased utilisation of the nearby water bodies and the development of marine tourism routes, the implementation of OP's future strategy will be conducive to leisure and recreational development in the southern part of Hong Kong Island, thereby contributing positively to the Invigorating Island South initiative announced in the 2020 Policy Address. To develop the water bodies and marine tourism, the construction of piers would be necessary. As these piers will serve the larger community of the Southern District when built, our current thinking is for the Government to develop them as public works projects and entrust them to the OPC who should manage the piers and keep them open for public use.

19. Although different parts or facilities of OP might be operated by different developers/operators at the same time, as the landlord of the Park, the OPC will set the future visions and directions for all development projects in the Park, which future developers/operators must follow when designing, constructing and operating the zones/facilities, so that new projects would be consistent with the overall theme of the Park. The OPC will formulate the framework for this new joint operation model and impose relevant conditions in the commercial contracts. The OPC could also set up a committee comprising different developers/operators for coordination of the daily operation as necessary.

20. The OPC will also introduce a new ticketing regime, changing from the existing pay-one-price model to allowing zero charge admission to certain parts of OP (the lower park)⁴ while charging an affordable admission fee for other parts (the upper park), and adopting a pay-as-you-go model for particular attractions and specific zones. In so doing, there would no longer be a need to pay a prohibitive fee upfront for admission, and this would incentivise and attract the public to visit OP more often as and whenever they please while providing them the flexibility to visit whichever parts of the Park and attractions which may require additional fees. Such an arrangement is expected to significantly boost the Park's attendance and in-park spending.

21. The current staff structure of the OPC can be roughly divided into general staff, supervisor staff, assistant administrative staff, and administrative staff (executive director and above). To implement the future strategy, the OPC needs a management team with experience and capacity in corporate reform. The OPC is re-orienting its management team in this direction. The OPC employed about 2 000 full-time staff in mid-2019 and recruited more than 2 000 part-time staff during festive seasons. The number of its full-time and part-time staff (excluding the Water World) has been reduced to around 1 800 and around 200 respectively by end of 2020. As some of the facilities will be outsourced in future, the number of staff directly employed by the OPC will also decrease. To mitigate the impact on the affected employees, the entire transformation process will span over a few years in a gradual manner, and the OPC will require its partner(s) to give priority to hiring existing staff.

22. The initiatives at Enclosure 1 as well as the pay-as-you-go model under the mixed mode of operation proposed above align with our undertaking to LegCo that OP would steer away from the conventional development model of theme parks. Outsourcing various offerings of the Park to the private sector would obviate any need for the OPC to make significant investment in amusement rides as well as to bear the associated financial risks in future. It will enable the OPC to reorient its development focus back to education and conservation, and tie in with and reinforce the Invigorating Island South initiative announced in the 2020 Policy Address as detailed below.

Invigorating Island South – 2020 Policy Address Initiative

23. The Chief Executive announced in her 2020 Policy Address to inter-alia implement the Invigorating Island South initiative to develop the Southern District into a place full of vibrancy, vigour and velocity for people to work, live, explore new ideas and have fun. The Development Bureau has set up

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⁴ While the purpose of zero charge is to attract admission, the OPC may retain the options of charging a small fee for admission and/or spending redemption in the lower park as measures for crowd control.

the Invigorating Island South Office, together with other relevant bureaux/departments, including the Tourism Commission, to study in detail and formulate the initiatives mentioned in the 2020 Policy Address, and consult the district stakeholders, with a view to promoting the Invigorating Island South initiative together. The future development strategy of OP is inextricably intertwined with the Invigorating Island South initiative and the two will achieve synergy –

- (a) Developments under the strategy such as the new non-ticketed, zero charge RDE zone and the all-weather Water World which is first of its kind in Hong Kong, will increase the leisure, entertainment, dining, and retail facilities in the district, adding vibrancy to the Southern District and providing a diverse leisure and entertainment experience;
- (b) The strategy will enhance transport connectivity and linkages, fully leverage the railway and the future water transport, promote marine tourism, and enhance connection between areas in and out of the Park;
- (c) The strategy will be conducive to the development of new district projects as well as attractions and promote synergy among them, including leveraging the fishing village character of the Aberdeen Typhoon Shelter, the waterfront promenade of Ap Lei Chau and Aberdeen, as well as attractions which feature the natural scenery and heritage of the southern part of Hong Kong Island (e.g. Deep Water Bay, Repulse Bay, and Stanley, etc.); and
- (d) The above developments can be lined up and fostered by harnessing the unique location and functions of OP.

Hence OP's future strategy not only will give a new lease of life to the Park, the transformed OP will also be an integral part of the Invigorating Island South initiative.

Implementation Timetable

24. Subject to securing the necessary approval of the FC for the proposals in paragraph 2, the OPC will proceed to prepare for the summer opening of the Water World expeditiously, implement the above future strategy both in its own right and also as part of the Invigorating Island South initiative.

25. We envisage that the Water World will officially open in summer this year, providing the public with an all-weather leisure destination featuring 27 indoor and outdoor water attractions. For the RDE zone at the lower park which will provide a gross floor area of 42 000 m², based on preliminary planning, it is envisaged that the OPC will carry out and complete the tendering exercise between FY 2021-22 and FY 2022-23 and receive the relevant upfront payment by FY 2022-23. Subject to the development plan of the private investor, it is expected that the new RDE zone will commence operation in FY 2026-27 and the OPC will start receiving the rent/revenue share derived by then. The OPC will also undertake the tendering exercise for the new adventure zone between FY 2021-22 and FY 2022-23. Same as the RDE zone, this adventure zone is expected to come into operation in FY 2026-27 and the OPC will start receiving rent/revenue share derived by then. The above timeline is based on prudent assumptions. Wherever circumstances permit, the OPC would seek to compress the tendering timetable while maintaining the integrity of the tendering process. In terms of ticketing, it is envisaged that the OPC will introduce the pay-as-you-go ticketing regime in FY 2023-24. The development schedule of the two piers will be subject to further studies.

Attendance Projection

26. With the implementation of the future strategy, it is envisaged that OP's attendance (excluding Water World) will increase from 3.8 million per annum in FY 2025-26 to 4.4 million in FY 2026-27. Through regular updates of the content and facilities of the Park, it is envisaged that the attendance will stabilise at around 4.2 million from FY 2028-29 onwards. This projected attendance figure has yet to take into account the additional attendance brought about by the new developments in the wellness-themed zones as their development programme is subject to further study.

27. Based on current projection, local attendance of OP (excluding the Water World, the projection of which is set out in paragraph 30 below) will only be 1.9 million in FY 2021-22, which is lower than the average annual local attendance of 2.2 million during the five financial years between FY 2014-15 and FY 2018-19. Even though local attendance is envisaged to reach around 2.6 million in FY 2026-27, it is only comparable with the peak local attendance of 2.6 million recorded in FY 2018-19. It is clear that the projection is on the prudent side and has fully taken into account the possible impact of the uncertainties associated with the COVID-19 epidemic on local attendance.

28. Concerning non-local visitors, according to forecasts by the International Air Transport Association, the Economist Intelligence Unit, and the World Tourism Organization, global tourism is projected to recover to the pre-epidemic level only by 2023 or 2024. Our current projection in relation to non-local visitors is even more prudent than these forecasts. We assume that there

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will be nearly no non-local visitors in FY 2021-22 due to the epidemic. And non-local attendance is projected to be 400 000 and 900 000 only in FY 2022-23 and FY 2023-24 respectively. In the long run, based on the aforementioned prudent approach in making projection, it is envisaged that non-local attendance will only be about 1.7 million to 1.8 million at its maximum, which is far lower than the average annual non-local attendance of 3.92 million recorded during the five financial years between FY 2014-15 and FY 2018-19.

29. Apart from being prudent in projecting future attendance, we are also adopting a similarly prudent approach in assessing the impact of changing the mode of operation on attendance. Although it is envisaged that the opening of the RDE zone in the lower park in FY 2026-27 would help boost visitors number of the upper park, based on the same prudent approach, we project that attendance by then (excluding the Water World) would be about 4.2 million to 4.4 million, which is still lower than the average annual attendance of 6.1 million recorded during the five financial years between FY 2014-15 and FY 2018-19.

30. For the Water World, it is envisaged to achieve an annual attendance of around 1.4 million by FY 2024-25 and stabilise at around 1.3 million in a few years afterwards. Specifically, from its opening in FY 2021-22 up to FY 2030-31, it is projected to achieve a local attendance of around 1 million. Regarding non-local visitors, it is envisaged that the Water World can reach a maximum of about 0.3 million, which is again a rather prudent projection.

Encl. 2 31. Projection of OP's overall attendance (including the Water World) is provided at Enclosure 2.

Proposed Financial Arrangements

32. The proposed financial arrangements for supporting the implementation of the future strategy comprise three parts, namely (a) non-recurrent funding support of \$1,664 million; (b) time-limited subvention of at most \$1,120 million from 2022-23 to 2025-26 for conservation and education, and (c) restructuring the Government loans. We are seeking FC's approval for parts (a) and (c). The financial requirements for part (b) will be reflected in the Estimates of the fiscal year concerned.

(a) Non-recurrent Funding Support

33. As mentioned in paragraph 28 above, it would take time for OP's attendance to rebound as in the wake of the pandemic, confidence in travel, and even in visiting theme parks, would still be relatively weak. Nonetheless, the

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approved Government funding for the OPC (FCR(2020-21)15 refers) would only cover its operation up to end of June 2021. It is projected that the net cash flow of the OPC will be negative in the coming years up to and including FY 2025-26, and its closing cash balance will be in the negative in the coming decades up to and including FY 2046-47. This already assumes that the repayments of the MRP Government Loan and TSW Government Loan are deferred⁵. If the impact of the COVID-19 pandemic continues to linger for a sustained period and becomes more significant than envisaged, the financial performance of the OPC can be even worse.

34. To help the OPC tide over the financial challenges in the short to medium term and provide it with certain financial buffer as it embarks on the future strategy, we propose to provide the OPC with a non-recurrent funding of \$1,664 million. This amount is estimated by the OPC on the basis of the one-year cost for running OP (including the Water World), inclusive of both operating and capital expenditure, with breakdowns as follows –

	\$ million
(a) Operating expenditure of OP (excluding the Water World)	1,146
(b) Operating expenditure of the Water World	284
(c) Capital expenditure of OP (excluding the Water World)	204
(d) Capital expenditure of the Water World	30
Total	1,664

35. The above funding will help mitigate the uncertainty on whether attendance recovery would take place as forecast and the impact of the COVID-19 pandemic⁶ that may linger for a longer while, as in repeated closure of the Park and reduction of operating capacity when open due to social distancing measures. As the funding is estimated based on the one-year cost, even if OP has to be closed continuously and the opening of the Water World has to be postponed due to the epidemic, the OPC should still be able to maintain its operation for at least one year

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⁵ If the repayment of the Government loans is not deferred, meaning that the OPC is required to make its first repayment of \$373 million (updated as per the latest interest rate of the Government's fiscal reserves placed with the Exchange Fund as announced in the 2021-22 Budget) in September 2021 as per the current repayment schedule, the OPC would turn cash negative by the third quarter of 2021 the earliest and would go bust as a result.

⁶ As a result of the pandemic, the gross revenue of OPC has been reduced from \$1,432 million in 2019 to \$223 million in the first eleven months of 2020, mainly because the Park was closed for over 200 days under Government's direction.

up to end of June 2022. Nonetheless, when safe and effective COVID-19 vaccines are available with vaccination programmes launched around the world, and as the local epidemic situation is expected to abate gradually, we consider that the chance of prolonged and continuous closure of the Park should be relatively small. Hence, we expect that the proposed non-recurrent funding should be adequate for helping the OPC mitigate the uncertainties brought by the epidemic at least for the coming year.

36. The funding will also help the OPC meet the forecast cash shortage in the coming financial years, and cushion itself against possible delay in the implementation of the various proposed initiatives. It can also provide the OPC with the necessary initial resources to embark on the future strategy.

37. As with the previous funding support provided to the OPC, we propose to disburse the funding to the OPC on a monthly basis upon receipt and scrutiny by the Tourism Commission of the monthly cash flow projection from the OPC as well as approval by the Commissioner for Tourism. This would enable the Government to exercise effective and sustained oversight of the expenditure and financial position of the OPC and ensure that it would continue to exercise cost control. Hence, the proposed amount represents a ceiling of funding the Government would provide to the OPC.

38. As mentioned above, the funding approved by the FC in May 2020 could only cover the operation of OP up to June 2021. There is an urgent need for us to seek an additional funding support of \$1,664 million for the OPC to cover its operation from July 2021 onwards, as the OPC embarks on the implementation of OP future strategy.

(b) *Time-limited Subvention for Conservation and Education*

39. While the non-recurrent funding support above will help mitigate the financial difficulties faced by the OPC, there are still plenty of uncertainties in the post-pandemic recovery period. To strengthen the financial position of the OPC as it embarks upon the implementation of the future strategy and to ensure it is endowed with sufficient resources for taking forward its undertakings in conservation and education, we propose to provide subvention to the OPC for its conservation and education initiatives under the future strategy. In fact, those are very much Government functions which we have relied on the OPC to perform during the past several decades without any Government subvention.

40. In addition to the non-recurrent funding support above, we propose to provide the OPC with the time-limited subvention for conservation and education starting from FY 2022-23, and the amount per year should be pitched at the average

/one-year

one-year expenditure of the OPC on conservation and education (calculated based on the average of such expenditure from FY 2014-15 to FY 2018-19), which is equivalent to some \$280 million, or the actual expenditure level of the preceding financial year, whichever is the less. Relevant expenditures include staff costs, repairs and maintenance, utilities, animal cost, shows and exhibitions, advertising and promotion, insurance, related office expenses as well as donations and administrative support provided for the Hong Kong Ocean Park Conservation Foundation, etc. Noting that the financial health of the OPC would improve as the revenue sharing arrangement of the RDE zone comes into play in FY 2026-27 and as attendance resumes gradually following the subsidence of the pandemic, we propose to provide the subvention for conservation and education for four years up to FY 2025-26. On this basis, the total subvention for conservation and education to be provided to the OPC from 2022-23 to 2025-26 would be at most \$1,120 million. We will devise a suitable mechanism to ensure the subvention would be spent on conservation and education, adhering to the “dedicated-fund-for-dedicated-use” principle. The subvention from 2022-23 to 2025-26 will be reflected in the Estimates of the fiscal year concerned.

(c) Restructuring of Government Loans

41. To further provide the OPC with the financial capacity to implement the future strategy and achieve financial sustainability, we propose to amend the terms of the MRP Government Loan and TSW Government Loan, the total outstanding balance of which is in the region of \$5.4 billion by end of June 2021.

42. Under the prevailing interest rates arrangement, \$1.7 billion of the \$5.4 billion balance is related to interest payment, representing one-third of the total amount. The total average debt service (i.e. principal plus interest) for the two Government loans would exceed \$636 million per year in the coming ten years. Such a heavy financial burden would not be sustainable for the OPC when it shifts its focus more towards conservation and education. We therefore propose to provide interest waivers to the OPC for the two Government loans with effect from 1 July 2021.

43. Based on the existing terms of the two Government loans as approved by the FC, their repayments shall commence in September 2021 with the first bullet amount of about \$373 million⁷, followed by the second payment of about \$436 million⁷ in March 2022. This repayment schedule would render the OPC cash negative by the third quarter of 2021 the earliest and it would go bust as a result, if

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⁷ The repayment amounts are updated as per the latest interest rate of the Government’s fiscal reserves placed with the Exchange Fund as announced in the 2021-22 Budget.

additional Government financial support is not forthcoming. We have considered deferring the repayment to at least FY 2026-27, when the revenue sharing arrangement of the new RDE zone is to be in place to provide the OPC with a reliable source of income. Nonetheless, as the detailed development programme of the new RDE zone is still subject to further study, to be prudent, we suggest that repayment should start two years after the commencement of the revenue sharing arrangement, i.e. by FY 2028-29.

44. For loan repayment starting from FY 2028-29, we consider that after allowing the OPC to maintain a minimum cash reserve for operation⁸ and set aside resources necessary for meeting its future capital expenditure requirement, it should deploy surplus cash for repaying outstanding loans and interest owed to the Government. That said, at the initial stage of implementing the future strategy, we consider that the OPC should be allowed to retain more cash so as to hedge against any unforeseen circumstances on top of its minimum cash reserve and general reserve for capital expenditure requirement.

Encl. 3 45. Based on the considerations above and taking into account the projected financial situation of the OPC, we have formulated an indicative repayment schedule (Enclosure 3 refers) under which the two Government loans will be fully repaid by 2059. We have presented this indicative repayment schedule to the ED Panel at its meeting on 25 January 2021 and 22 February 2021. The OPC is expected to make reference to this indicative repayment schedule although the Government will retain the discretion to adjust the amount of repayment by the OPC each year and to require the OPC to advance the repayment as set out in paragraph 46(d) below.

46. Taking the above into account, we propose to amend the terms of the two Government loans as follows –

Interest arrangement

- (a) waive interest with effect from 1 July 2021;

/Repayment

⁸ The existing policy of the OPC is to maintain a minimum cash reserve calculated on a 12-month rolling basis equivalent to the sum of (a) four months' worth of the operating expenditure of the following year; (b) 60% of regular capital expenditure of the following year (excluding Water World for the time being as it has yet to come into operation at the moment); and (c) debt service for the following year. The OPC would review this policy from time to time.

Repayment arrangement

- (b) defer the commencement date of OPC's repayment by seven years from September 2021 to September 2028;
- (c) defer the date of final maturity to March 2059, thereby extend the repayment period from 10-12 years to 31 years; and
- (d) reserve the Government's discretion to adjust the amount of repayment by the OPC each year and to require the OPC to advance the repayment, after consultation with the OPC, based on the general principle that after allowing the OPC to maintain its minimum cash reserve and set aside resources necessary for meeting its future capital expenditure requirement, the OPC is required to make use of its surplus cash to repay outstanding loans and interest owed to the Government .

47. With the above proposal, we envisage that the OPC would not experience negative cash balance in the years to come. This will enable the OPC to implement the future strategy and achieve financial sustainability even if the post-pandemic recovery is slower and more sporadic than envisaged.

Financial Projection

48. Based on the overall directions and initial plan set out in the future strategy which are premised upon a set of prudent assumptions, we have made the relevant financial projections. The projected overall operating cost (including operating and capital expenditure) and operating income of OP and the Water World as well as the underlying prudent assumptions adopted in the projection are set out at Enclosure 4. If the proposals in paragraph 2 are approved thereby enabling the OPC to implement the future strategy as scheduled, it is envisaged that the OPC would be able to maintain a positive cash balance as from FY 2021-22, achieving a positive EBITDA (i.e. earnings before interest, taxes, depreciation, and amortisation) and net cash inflow starting from FY 2024-25. It should also have the financial capacity to repay the two Government loans throughout the re-scheduled repayment period while maintaining its financial health in the long run without seeking Government's further financial support.

Encl. 4

/FINANCIAL

FINANCIAL IMPLICATIONS

49. The proposed non-recurrent funding support of \$1,664 million for the OPC should be one-off in nature and will not entail any additional recurrent expenditure on the part of the Government. The annual recurrent expenditure arising from the proposed time-limited subvention will be capped at \$280 million per year, for four years from 2022-23 to 2025-26. Under the revised arrangements as set out above for the two Government loans, based on the indicative repayment schedule at Enclosure 3, total revenue foregone is projected to be around \$4.03 billion in 2021 Net Present Value. For the two piers to be developed at Deep Water Bay and Tai Shue Wan as public works projects, subject to further technical studies, resources will be sought with justifications through the established mechanism.

OTHER PROPOSALS CONSIDERED

50. We have explored the option of a wholesale outsourcing of OP to a private operator and sounded out some potential candidates, while receiving approaches from others. Although there were market interests in running OP in its entirety, they came with a price as there was expectation that the Government would write off the two Government loans and settle all the outstanding liabilities of the OPC. One investor specifically requested an upfront payment from the Government to tide over the financial difficulty likely to ensue from the pandemic. Aside from the substantial financial implications on the Government, under the wholesale outsourcing option, the Park is likely to reduce its focus and efforts in conservation and education as well as its community initiatives (e.g. concessionary admission) due to cost considerations. The opening of Water World in the summer of 2021 will also be very unlikely as it takes time to tender and negotiate the outsourcing deal. Given this arrangement would deviate from our previous commitment to the FC of re-orienting the focus of OP towards conservation and education as well as the commitment made in the 2020 Policy Address of opening Water World in summer 2021, and taking into account the significant financial implications to the Government (including the provision of funding for the upfront payment and writing off of two Government loans with total loan balance projected to be in the region of \$5.4 billion), this option is not recommended.

PUBLIC CONSULTATION

51. As mentioned in paragraph 7 above, as part of the rethink exercise, comprehensive engagement with various stakeholders has been undertaken. Views of the stakeholders have been taken into account in formulating the future strategy. The current proposal is also in line with the key directions committed to LegCo as set out in paragraph 6 above which were developed based on views of the FC

/Members,

Members, the general public and various sector of the community. We have consulted the LegCo ED Panel at its meetings on 25 January 2021 and 22 February 2021 regarding the future strategy for OP as well as the proposed financial arrangements. Members of the ED Panel raised no objection for the Government to submit the proposed financial arrangements to the FC for approval. In taking forward the future strategy, the OPC will fully take into account various views received in the process.

Commerce and Economic Development Bureau
Tourism Commission
March 2021

Key Components of Future Strategy for Ocean Park (OP)

(a) Conservation and education initiatives

Conservation and education should be the cornerstone of the future strategy of OP. The Ocean Park Corporation (OPC) was relatively low-key when conducting the work in the past, concentrating mainly on schools or classrooms/animal exhibit facilities inside the Park, and so the general public may have limited understanding of OPC's work. The OPC will try different models in future, carry out more extensive conservation and education work, and increase public awareness of and participation in conservation matters.

We suggest that the OPC should invest more in conserving local and endangered species in and out of the Park. It could fund research and share the scientific discoveries through seminars and conferences. The importance of conservation should also be communicated throughout the Park. The OPC may create, broadcast, and share content showcasing conservation and education on social media, television, and other suitable channels. More volunteering opportunities could be offered to engage the public to take part in person and contribute to its conservation efforts. It may also develop a digital platform for children which shares animal information and conservation content such that children can befriend the animals, become their mates, and gain relevant knowledge.

We suggest that the OPC should expand its education programme and relevant collaborations with schools and other organisations to offer the public diversified, fun and differentiated activities or programmes for all ages and levels so as to raise public awareness of conservation.

The OPC may also collaborate with other conservation institutions/sites in Hong Kong, such as the Hong Kong Wetland Park and the Hong Kong UNESCO Global Geopark to provide conservation-themed activities. It may organise education and conservation-themed study tours to other parts of the world learning about different ecosystems and species, for instance tours to Sichuan for participants to see for themselves the giant panda-related conservation efforts therein.

We will ask the OPC to set key performance indicators to monitor the effectiveness of its conservation and education work.

/(b)

(b) New retail, dining, and entertainment (RDE) zone

In addition to being a champion of conservation and education, we suggest that OP should transform into a holistic leisure destination. To achieve this, we propose to create a new non-ticketed, zero charge, RDE zone at the lower park (i.e. the area north of Brick Hill), which will also feature open air event spaces and a children’s play area so as to create a new focal point of leisure and recreation in the Southern District, providing the public with an ideal venue for all to spend time and enjoy themselves together. It will also be a welcoming gateway for OP to enhance its patronage. Currently, a number of attractions in the lower park area are coming into the end of their useful life in the next three to five years. We propose to phase out such facilities to free up space for creating an open air RDE destination for all age groups. To allow the public to access this new RDE zone and the proposed pier at Deep Water Bay (paragraph (g) below refers) as well as enjoy the zone with zero charge, the existing admission gate will be receded to the Cable Car Station and the Ocean Express Station. Zero charge admission to some of the animal attractions in the lower park area can also be considered.

To enhance vibrancy and engage a bigger audience, the RDE zone will consist of low-rise buildings. The zone would be dotted with public spaces creating an airy environment. These spaces can also host open air markets and events to wow the public with a kaleidoscope of colourful and delightful leisure experiences. A sizeable children’s play area featuring playground and water play can be incorporated for children to have fun and families to have a good time. Relevant regulation would be put in place to ensure good conduct within the zone so as to provide a safe, comfortable, and pleasant leisure environment. Meanwhile, the conservation and education-related facilities and attractions, including the Grand Aquarium, the Hong Kong Jockey Club Sichuan Treasures, the Giant Panda Adventure, the Little Meerkat and Giant Tortoise Adventure, and the soon-to-be-completed STEAM^{Note} Hub, can be integrated into the RDE zone harmoniously to continue their important functions of conservation and education.

We recommend a gross floor area of about 42 000 m² for the RDE facilities so as to make the zone commercially viable, taking into account the footprint of the lower park area and our objective to maintain a low-rise setting dotted with public spaces. We also recommend the OPC to bring in private developer/operator(s), through outsourcing under a long term concession arrangement, to develop and operate these facilities to relieve OPC’s operating financial burden.

/(c)

^{Note} “STEAM” represents “Science, Technology, Engineering, Arts, and Mathematics”.

(c) Existing core attraction zone

We recommend to retain the existing core attraction zone at the upper park area (i.e. the area south of Brick Hill) and undertake refurbishment or introduce new facilities to upgrade and re-theme the zone so as to enhance its relevance to conservation and education. For example showing conservation-related videos when visitors queue up for attractions. Navigational signs could be improved and storytelling elements could be incorporated to bring the zone to life. Furthermore, the Vet Centre can be upgraded to enable the public to observe and witness animal care first hand.

(d) New adventure zone

We recommend phasing out some aged thrill rides early in the upper park area, such as Mine Train and Raging Rivers, after they have run out of their useful life to make room for a new and exciting adventure-themed zone. This zone would feature outdoor attractions which can leverage the natural topography and scenic view of the area while involving less capital investment. Xraycer and Zipline are such examples which are trendy and popular. Enjoying these attractions among the mountains and the sea will provide an awesome and unforgettable experience for the thrill-seeking visitors.

(e) New wellness-themed zones

The demolition of ageing rides in the southern tip of the upper park area in the coming years and the greenfield site north of Tai Shue Wan will provide space for longer term development and exploration of new elements. Subject to feasibility studies, these areas may provide space for wellness-themed activities such as glamping, trekking, meditation, and yoga retreats for the public to wind down, get close to nature, and have a relaxing leisure experience, taking full advantage of the natural scenery of OP and its surroundings as well as develop the Park's position as a leisure destination.

(f) Water World

Water World would operate as Hong Kong's first year-round, all-weather water park featuring 27 indoor and outdoor water attractions such as a man-made beach, a surf rider, and an eight-lane mat racer. It will also feature a resort-style cabana area where visitors can dine, refresh and relax.

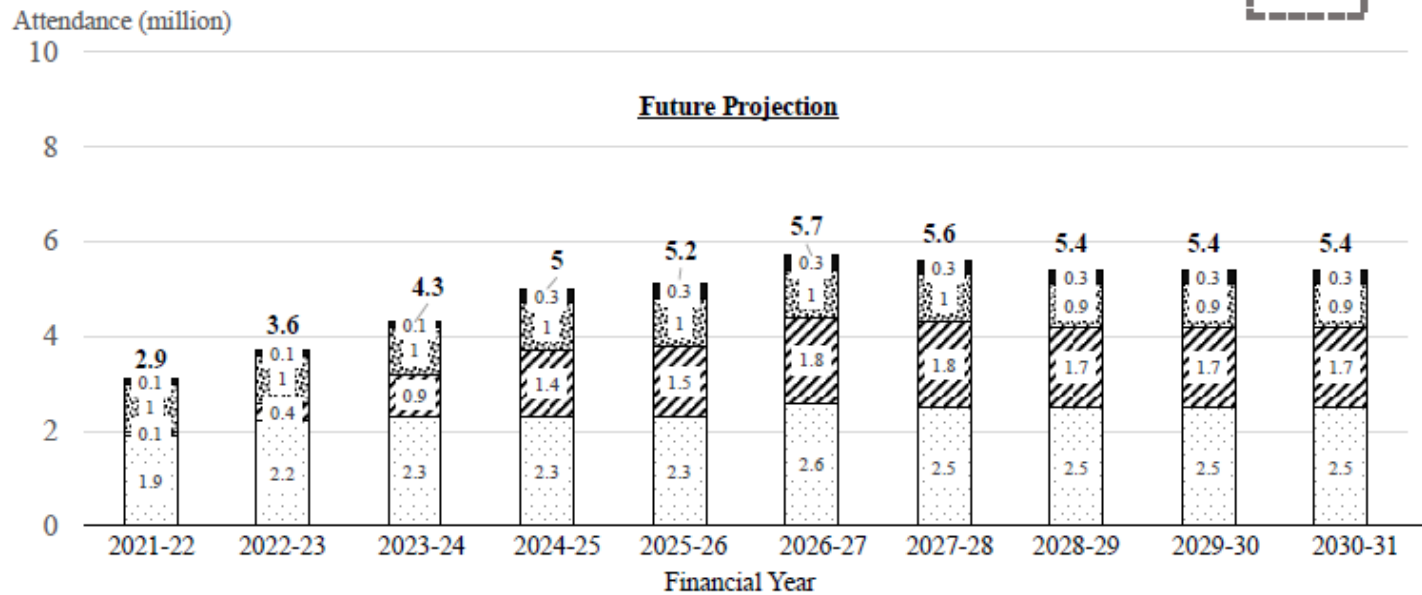
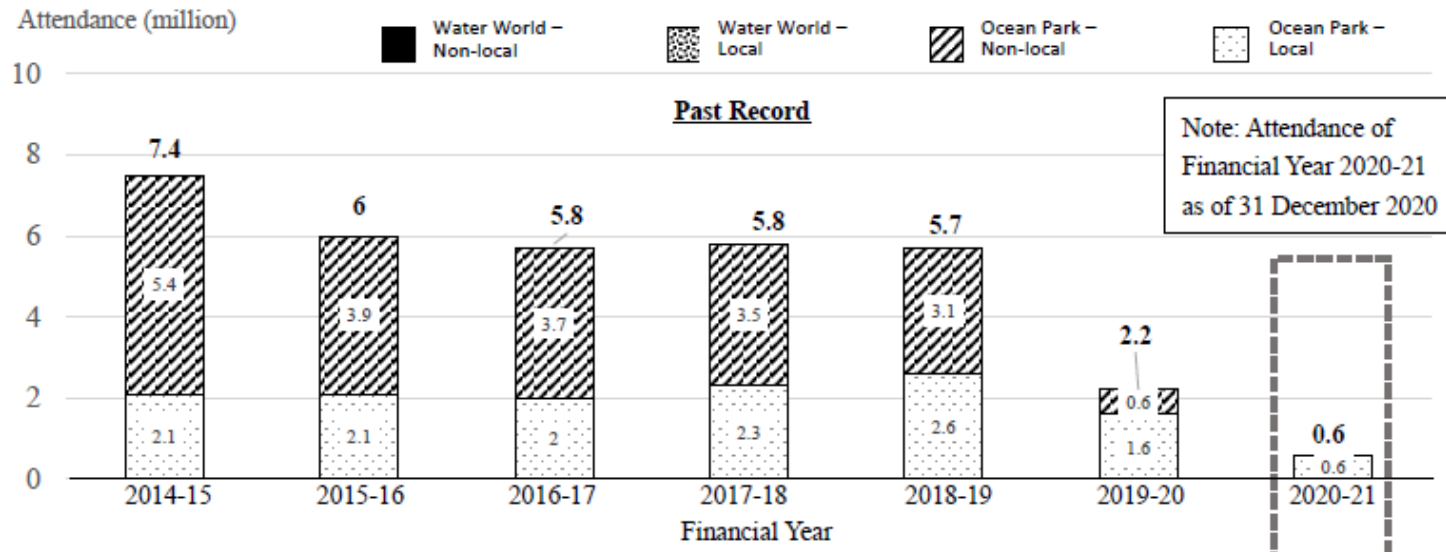
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This unique attraction will provide visitors with a memorable experience consolidating OP's position as a major resort and leisure destination and help drive economic development in the Southern District and beyond. We envisage the Water World will open in summer 2021 providing some new entertainment and excitement for the public.

(g) Connectivity

The iconic Cable Car together with the Ocean Express connecting between the lower park area and the upper park area are still very attractive to the public and should be retained. We also propose to develop a pier in the lower park area at Deep Water Bay such that, in future, the public can access the new RDE zone by sea. We also propose to build another pier adjacent to the Water World in Tai Shue Wan to enhance connectivity between the two areas. These piers will help enhance OP's connectivity with other attractions in the Southern District and beyond, and consolidate the Park's position as the core in organising marine tourism in and out of the Park in the Southern District.

Ocean Park's Overall Attendance (Including the Water World)



Enclosure 3 to FCR(2020-21)103

Indicative Repayment Schedule

	Repayment^{Note} (\$million)
2028-29	37
2029-30	37
2030-31	37
2031-32	37
2032-33	37
2033-34	37
2034-35	37
2035-36	37
2036-37	37
2037-38	37
2038-39	37
2039-40	37
2040-41	37
2041-42	37
2042-43	37
2043-44	37
2044-45	37
2045-46	37
2046-47	37
2047-48	355
2048-49	366
2049-50	345
2050-51	323
2051-52	474
2052-53	470
2053-54	447
2054-55	422
2055-56	394
	/2056-57

^{Note} Repayment amount is calculated with reference to the latest Government's fiscal reserves rate as announced in the 2021-22 Budget.

	Repayment^{Note} (\$million)
2056-57	539
2057-58	529
2058-59	45

^{Note} Repayment amount is calculated with reference to the latest Government's fiscal reserves rate as announced in the 2021-22 Budget.

Projection on the Overall Operating Cost and Operating Income of Ocean Park (OP) and the Water World

OP (Excluding the Water World)

Financial Year (FY)¹	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Overall Operating Cost² (\$ million)	1,344	1,434	1,501	1,569	1,641	1,686	1,756	1,829	1,909	1,978
Operating Income³ (\$ million)	555	740	1,207	1,507	1,623	1,853	1,865	1,879	1,936	1,996

Water World

FY¹	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Overall Operating Cost² (\$ million)	335	354	374	405	425	443	463	483	504	523
Operating Income (\$ million)	345	350	384	494	510	510	510	510	499	512

Remarks –

1. FY mentioned therein refers to the financial year of the Ocean Park Corporation (OPC) which starts on every 1 July.
2. Overall operating cost includes both operating and capital expenditure. The projected figures in FY 2021-22 (i.e. \$1,344 million for OP and \$335 million for Water World giving a total of \$1,679 million) are slightly different from the figures mentioned in paragraph 34 of the Paper (i.e. \$1,350 million for OP and \$314 million for Water World giving a total of \$1,664 million) with the latter being estimated by the OPC based on its actual expenditure in FY 2020-21 and the former being projected based on a set of broad working assumptions applied across the years. In determining the amount of funding to be sought, we rely on OPC's estimation. The difference in term of the total sum among the two sets of figures is less than 1%.
2. This only reflects the operating income and has yet to take into account the upfront payment and rent/revenue share received from the outsourced facilities/zones. To maintain the integrity of the tendering exercises, it is not appropriate for the Government to disclose commercially sensitive information such as the forecast amount of upfront payment as well as annual rent/revenue share.

/Note

Note on Financial Projection

The above projection is made on prudent assumptions. For example, we have made reference to the relevant past cost figures of the OPC when projecting the overall operating cost. With the OPC continuously compressing its costs rigorously, it is envisaged that the cost for running OP (excluding the Water World) will be \$1,344 million and \$1,434 million in FY 2021-22 and FY 2022-23 respectively, which is lower than the average annual cost of \$1,560 million (excluding the capital expenditure for developing the Water World) during the five financial years between FY 2014-15 and FY 2018-19. The projection has yet to reflect the possible cost savings which the OPC may derive from the phasing out and demolition of aged facilities when the OPC outsources the development of the wellness-themed zones. For the Water World, in the first five years since its opening, the projected average overall operating cost will be about \$380 million, amongst which about half will be spent on staff costs, 10% will be spent on utility expenses (electricity alone will take up about 6% of the overall operating cost), and 15% will be spent on repairs and maintenance as well as capital expenditure. In any case, the OPC will continue to look for opportunities to cut expenses and stringently control cost in future.

2. As for the projection of operating income, we have made reference to the relevant past figures of the OPC and the forecasts on global tourism recovery made by various institutions. We have also taken into account the positive impact on operating income arising from the increased patronage brought by the opening of the retail, dining, and entertainment zone as well as the implementation of the pay-as-you-go arrangement. We projected that the revenue of the OPC (excluding the Water World) in FY 2021-22 will drop by more than half as compared with the average annual revenue during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$1,725 million). It is envisaged that only by FY 2026-27, as attendance rebounds, number of non-local visitors increases, and with the new ticketing regime as well as new attractions coming on stream, will the revenue exceed the average between FY 2014-15 and FY 2018-19. The above figures only reflect the operating income and have yet to take into account the upfront payment and rent/revenue share received from the outsourced facilities/zones. We have thus adopted again a prudent approach in projecting OPC's future operating income.

3. For in-park spending per capita, based on the aforementioned prudent approach in making financial projection for the OPC, we envisage that the figure in FY 2021-22 will be lower than the annual average during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$280). We expect it to pick up gradually as the economy recovers and as the pay-as-you-go arrangement commences.
