

**For discussion on
25 January 2021**

Legislative Council Panel on Economic Development

Proposed Way Forward of Ocean Park

PURPOSE

Together with the Ocean Park Corporation (OPC), the Government has completed the rethink exercise for charting the way forward of Ocean Park (OP), formulated the future strategy for OP as well as the proposed financial arrangements and legislative amendments for supporting the implementation of the strategy. This paper briefs Members on the future strategy for OP as well as the proposed financial arrangements and legislative amendments. Support from this Panel is sought for submitting the non-recurrent funding support (paragraphs 24 to 26 below refer) and the restructuring of the Government loans (paragraphs 29 to 34 below refer) under the proposed financial arrangements to the Finance Committee (FC) of the Legislative Council (LegCo) for approval.

RETHINK EXERCISE

2. OP was established in 1977. Under the Ocean Park Corporation Ordinance (Cap. 388) (OPCO), OP is to be managed by the OPC 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 thus embarked on a repositioning exercise in 2018 which culminated in the Strategic Repositioning Plan (SRP).

3. We presented the SRP and the related financial arrangements to this 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 Coronavirus Disease 2019 (COVID-19) pandemic. COVID-19 which has since then hit Hong Kong and then the rest of the world has given rise to a new set of circumstances which cast doubts on the commercial viability of the SRP. We decided that it would not be prudent to pursue the then proposal 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 is to comprehensively re-examine the strengths and weaknesses of the Park and how to tackle the challenges faced by the Park in operation

and development, including reviewing its mode of operation, financing sources, and statutory functions, etc.

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

- (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 Year¹(FY) 2020-21) up to June 2021; repay the commercial loans of the OPC and related financing costs; settle the outstanding costs for completing the Tai Shue Wan Development Project; and settle any current liabilities and possible compensation; and
- (b) amendments to the terms of the two Government loans provided to the OPC for the Ocean Park Redevelopment Plans² and the Tai Shue Wan Development Project (referred as MRP Government Loan and TSW Government Loan respectively hereafter) so that their repayments will only commence in September 2021 after the rethink exercise has come up with the way forward.

5. At multiple meetings of the FC, we heard the useful views of the FC Members, the general public, and various sectors of the community. As set out in information paper FCRI(2020-21)5, we have undertaken to LegCo 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

¹ "Financial Year" 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.

² The Ocean Park Redevelopment Plans is later referred as the Master Redevelopment Plan (MRP).

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.

6. After obtaining FC's approval on 29 May 2020 for the financial arrangements set out in paragraph 4 above and based on the directions above, the Government joining hands with the OPC embarked upon the rethink exercise and appointed a business consultant for assistance. 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.

7. The rethink exercise concludes 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, however are not well 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 society through experiential learning and immersive education opportunities, and also want it to be known as a revamped destination for leisure activities upon repositioning. Based on these findings, we produced a future strategy for OP as set out in the ensuing paragraphs.

FUTURE STRATEGY

Vision

8. In line with the directions set out in paragraph 5 above, we recommend that OP should be transformed 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.

9. 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 be integrated 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

10. To deliver the above vision, we are proposing various initiatives. The key components are summarised below.

(a) Conservation and education initiatives

Conservation and education should be the cornerstone of the future strategy of OP. 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.

(b) New retail, dining, and entertainment zone

In addition to being a champion of conservation and education, we suggest that OP should be transformed into a holistic leisure destination. To achieve this, we propose to create a new non-ticketed, free of charge, retail, dining, and entertainment (RDE) zone at the lower park area (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 10(g) below refers) as well as enjoy the zone for free, the existing admission gate will be receded to the Cable Car Station and the Ocean Express Station. Free 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. 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 STEAM³ 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-

³ “STEAM” represents “Science, Technology, Engineering, Arts, and Mathematics”.

rise setting dotted with public spaces. We also recommend to bring in a private operator, through outsourcing under a long term concession arrangement, to develop and operate these facilities to relieve the operating financial burden of the Park.

(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 some of these 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. 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. It will open in summer this year 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.

Operation Mode

11. 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.

12. For the new non-ticketed RDE zone, as the OPC does not have the required expertise, capacity, and financial resources for developing large-scale RDE facilities, we recommend to tender out its development to private developer(s) under a long term concession. The OPC may receive an upfront payment and share rental income throughout the concession period, thereby subsidising its conservation and education initiatives. We expect the developer 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 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 station and Deep Water Bay.

13. 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. Market sounding out exercise by the consultant confirmed the interests for such attractions but highlighted that differentiating elements must be incorporated to enhance their distinctiveness in view of growing competition.

14. 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 overburden 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.

15. We recommend the OPC to continue to take charge and operate the conservation and education related facilities leveraging its own expertise and years of experience. We also recommend the OPC to continue to manage and maintain the Cable Car and Ocean Express as the key and integral infrastructure linking up the lower park area and the upper park area.

16. The construction of the Water World will be completed in the first half of this year and can commence operation. The OPC can begin operating the Water World within this year. Regarding its mode of operation, we recommend the OPC to take up its operation at least in the short to medium term in order to secure an early opening as any outsourcing will inevitably delay the launch day by one year, while its timely opening would bring some income to OP.

17. Through OP's repositioning exercise, we came to realise that the opening up of the Park as well as the development in and out of the Park, in particular the increased utilisation of the nearby water bodies and the development of marine tourism routes, will be conducive to leisure and recreational development in the southern part of Hong Kong Island. To develop the water bodies and marine tourism, the construction of piers would be necessary. For the proposed piers, as they would serve the larger community of the Southern District, our current thinking is that the Government should develop them as public works projects and entrust them to the OPC for management in future.

18. Taking into account the possibility of having different operators running various parts of the Park at the same time, the OPC will consider introducing a new ticketing regime, changing from the existing pay-one-price model to allowing free admission to certain parts of the Park (the lower park area) while charging a lower admission fee for other parts (upper park area) and adopting a pay-as-you-go model therein for particular attractions and specific zones. In doing so, there would no longer be a need to pay a prohibitive fee upfront for admission, attracting the public to visit the Park more often as and whenever they prefer while having the flexibility to choose which parts of the Park and which attractions to enjoy. Such arrangement will significantly boost the Park's attendance and in-park spending.

19. The initiatives in paragraph 10 above 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 parts of the Park to private parties 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.

Invigorating Island South – 2020 Policy Address Initiative

20. 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 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, free of 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 the OP future strategy not only would serve to give a new lease of life to OP, the OP transformed would also be an integral part of the Invigorating Island South initiative.

Implementation Plan, Projected Attendance and Long Term Sustainability

21. Subject to securing the necessary approval for the financial arrangements set out in paragraphs 23 to 34 below, the OPC will proceed to implement the above future strategy in its own right, and also as part and parcel of the Invigorating Island South initiative.

22. Based on preliminary planning, it is envisaged that the OPC will carry out the tender exercise for the new RDE zone and the new adventure zone between FY 2021-22 and FY 2022-23, as well as introduce the pay-as-you-go ticketing regime in FY 2023-24. Subject to further technical studies and the engagement of private interest, it is envisaged that the new RDE zone and the new adventure zone can commence operation in FY 2026-27, thereby boosting OP's attendance (excluding Water World) to 4.4 million per annum from 3.8 million in FY 2025-26. Through regular updates, it is envisaged that the attendance will stabilise at around 4.2 million from FY 2028-29 onwards (new developments in the wellness-themed zones may bring additional attendance which have not been taken into account in the current projection given the uncertainty of their development programme). The development schedule of the two piers is to be confirmed upon further studies. On the other hand, the Water World under OPC's management shall commence operation in the summer

of 2021. 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. It is envisaged that the OPC will be cash positive in the long term and shall be able to repay its loans to the Government while maintaining a rolling minimum cash reserve and setting aside a reserve fund for meeting its regular capital expenditure requirement.

PROPOSED FINANCIAL ARRANGEMENTS

23. The proposed financial arrangements for supporting the implementation of the future strategy comprise three parts, namely (a) non-recurrent funding support for OP's operations; (b) time-limited subvention on conservation and education, and (c) restructuring of the Government loans.

(a) Non-recurrent Funding Support

24. According to forecasts by the International Air Transport Association, the Economist Intelligence Unit, and the World Tourism Organization, global tourism is projected to recover by 2023 or 2024. With reference to such forecast, it is envisaged that 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 current Government funding for the OPC 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 deferred⁴. 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.

25. To help the OPC tide over the financial challenge in the short to medium term and provide it with the necessary 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 additional funding, estimated on the basis of the one-year cost for running OP (including the Water World), inclusive of both operating and capital expenditures, will help mitigate the uncertainty on whether attendance recovery would

⁴ If the repayment of the Government loans is not deferred, meaning that the OPC is required to make its first repayment of \$377 million 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.

take place as forecast and the impact of the COVID-19 pandemic⁵ that might linger for a while yet, as in repeated closure of the Park and reduction of operating capacity due to social distancing measures. It will also help the OPC meet the projected amount of cash shortage in the coming financial years, and cushion itself against any 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. With the proposed additional funding, together with the subvention on conservation and education and the restructuring of the Government loans as set out below, it is projected that the OPC will not experience negative cash balances in the years to come. This will help place the OPC in a much more robust financial position to implement the future strategy and achieve financial sustainability even if the post-pandemic recovery is slower and more sporadic than envisaged.

26. Following 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 greater and continued oversight of the expenditure and financial position of the OPC and ensure the latter would exercise cost control. Hence, the proposed amount represents a ceiling of funding the Government would provide to the OPC.

(b) Time-limited Subvention on Conservation and Education

27. While the one-off 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 to support its conservation and education initiatives under the future strategy. In fact, those are very much Government functions which we have relied on OPC to perform during the past decades without any Government subvention. Without the OPC, the Government would have to take up those initiatives using public money anyway.

28. As the one-off funding support should be sufficient to foot the bill for running OP for the coming year, we propose to provide the OPC with the subvention

⁵ 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.

on conservation and education starting from FY 2022-23, the amount of the subvention per year should be pitched at the average one-year expenditure of the OPC on conservation and education (calculated based on the average of such expenditure during the 5-year period from FY 2014-15 to FY 2018-19), which is equivalent to some \$280 million, or at the expenditure level of the preceding financial year, whichever is the less. Noting that the financial health of the OPC would improve as the revenue sharing arrangement of the RDE zone comes into place in FY 2026-27 and as attendance resumes gradually following the subsidence of the pandemic, we propose to provide the subvention on conservation and education for four years up to FY 2025-26. On this basis, the total subvention on 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.

(c) Restructuring of Government Loans

29. In addition to the aforementioned non-recurrent funding support and the four-year subvention on conservation and education, to provide the OPC with the financial capacity to implement the future strategy and achieve long term sustainability, we propose to amend the terms of the MRP Government Loan and TSW Government Loan. The total loan balance of the two Government loans is projected to be \$5.4 billion by end of June 2021.

30. 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 \$377 million, to be followed by the second payment of about \$436 million in March 2022. Following the current repayment schedule would render the OPC financially vulnerable in the aftermath of the COVID-19 pandemic and defeat the purpose of providing the time-limited recurrent subvention and the non-recurrent funding support i.e. cushioning the OPC against uncertainties on the path of recovery and implementation of the future strategy. We therefore propose to defer the commencement of the repayments of the two Government loans to at least FY 2026-27, when the revenue sharing arrangement of the new RDE zone is expected to be in place to provide the OPC with a reliable source of income. In so doing, the OPC should be in a firmer financial position when it starts repaying the two Government loans. Nonetheless, as the detailed development programme of the new RDE zone is still subject to further study, to be prudent, we would suggest that repayments should start two years after the commencement of the revenue sharing arrangement, i.e. by FY 2028-29.

31. The interest-bearing arrangement of the two Government loans will also represent a heavy financial burden for and deal a serious blow to OPC's financial health. Currently, the MRP Government Loan has a fixed interest rate of 5% per annum while the TSW Government Loan has a floating interest rate which is equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund, which was 3.7% in 2020. Based on such interest rates, in the coming ten years, total debt service (i.e. principal plus interests) for the two Government loans on average would exceed \$630 million per year. This would not be sustainable for the OPC in the long run when it shifts its focus more towards conservation and education which not only are way from being lucrative but would most likely be loss-making. We therefore propose to provide interest waivers to the OPC for the two Government loans with effect from 1 July 2021.

32. For loan repayment starting from FY 2028-29, we recommend that although there should not be any fixed repayment schedule, the OPC should in general be required to make use of its surplus cash in repaying the Government loans after maintaining a minimum cash reserve⁶ and setting aside resources necessary for meeting its future capital expenditure requirement⁷. Based on the projection of OPC's future surplus cash situation, the loans will be repaid in 2059.

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

Interest arrangement

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

Repayment arrangement

- (b) deferring their commencement dates of repayment by seven years, from September 2021 to September 2028;

⁶ The existing practice 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 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.

⁷ Making reference to other theme parks, we propose to set aside 5% of OPC's revenue for funding the capital expenditure for future renewal.

- (c) deferring their dates of final maturity to March 2059, thereby allowing an extended repayment period of 31 years;
- (d) enabling the Government to require at its discretion the OPC to advance the repayment should it consider the OPC capable of doing so; and
- (e) requiring the OPC to make use of its surplus cash in repaying the Government loans every year after maintaining a minimum cash reserve and setting aside resources necessary for meeting its future capital expenditure requirement in general, following an indicative repayment schedule at **Annex**, while providing the Government with the discretion to adjust the amount of repayment each year after consulting with the OPC.

34. Based on the financial arrangements above, it is projected that the OPC should have the financial capacity to repay the two Government loans in full while maintaining its financial health in the long run without relying on Government's further financial support. We will take into account the impact of the non-recurrent funding support and the subvention on conservation and education mentioned above on OPC's financial situation as well as views of Members in taking forward the proposed restructuring of the Government loans.

FINANCIAL IMPLICATIONS

35. The annual recurrent expenditure arising from the proposed time-limited recurrent subvention will be \$280 million from 2022-23 to 2025-26, while the proposed non-recurrent funding support for the OPC should be one-off in nature and will not entail any additional recurrent expenditure on the part of the Government. Regarding the revised arrangements for the two Government loans provided to the OPC, the risk exposure for the Government should remain the same as before. Total revenue foregone arising from the currently proposed loan arrangements is projected to be around \$4 billion in 2021 Net Present Value (exact figure subject to update upon finalisation of the proposed restructuring of the Government loans). To protect public money, the OPC would be required to make use of its surplus cash in repaying the Government loans every year after maintaining a minimum cash reserve and setting aside resources necessary for meeting its future capital expenditure requirement in general and the Government would retain the sole discretion to adjust the amount of repayment each year after consulting with the OPC. 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 established mechanism.

OTHER PROPOSALS CONSIDERED

36. We have explored the option of wholesale outsourcing of OP to a private operator and sounded out some potential candidates. While market interests in running OP in its entirety existed, 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. Furthermore, the wholesale outsourced 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, not to mention 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 about \$5.4 billion), this option is not recommended.

PROPOSED LEGISLATIVE AMENDMENTS

37. To implement the future strategy, the OPCO needs to be amended. The current statutory functions of the OPC pivot on or around the physical OP itself, and does not confer power on the OPC to undertake conservation and education initiatives in the broader community (and overseas), e.g. organising hiking programmes or eco-tours with educational elements to other key local and overseas ecological sites outside OP. As such, it would be necessary to expand the functions of the OPC to cover the promotion, facilitation, and enhancement of public recreation, education, conservation, and tourism outside the park area both in and outside of Hong Kong. Furthermore, to provide legal certainty for the proposed outsourcing of different parts of the Park to private interests for development, operation, and full control and management, we consider it necessary to amend the OPCO to make it explicit that the OPC may perform its functions either alone, or jointly, or by agreement with any other person. We would also consider amendments to or repeal of the Ocean Park Bylaw (Cap. 388B) which regulates details of the Park's operation in view of the proposed introduction of outsourcing of its current and future facilities as elaborated in paragraphs 12 to 14 above. We are working on the necessary amendments and subject to the amendments required and the progress on drafting the legislative proposal, our target is to introduce the amendment bill into LegCo within the current legislative session.

THE NEXT STEP

38. Members are invited to consider the future strategy for OP as well as the proposed financial arrangements and legislative amendments as set out in this paper. Subject to the views of the Panel on Economic Development, we plan to submit the proposed non-recurrent funding support and the restructuring of the Government loans to the FC for its consideration and approval as well as include the recurrent expenditure required for the subvention on conservation and education to be provided to the OPC in the draft Estimates from 2022-23 to 2025-26 for LegCo's approval in the context of the Appropriation Bill of the fiscal year concerned.

**Tourism Commission
Commerce and Economic Development Bureau
January 2021**

Indicative Repayment Schedule

	Repayment (\$'000,000)
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	539
2057-58	529
2058-59	40