

Legislative Council Panel on Economic Development

Proposed Way Forward of Ocean Park Follow-up to the meeting of 25 January 2021

PURPOSE

Following the discussion at the meeting of the Legislative Council (LegCo) Panel on Economic Development (Panel) on 25 January 2021, as per Members' request, this paper sets out further information on the implementation timetable of the future strategy for Ocean Park (OP), OP's future attendance projection and financial situation, as well as how the proposed financial arrangements would help cushion the Ocean Park Corporation (OPC) against uncertainties arising from the Coronavirus Disease 2019 (COVID-19) pandemic.

IMPLEMENTATION TIMETABLE

2. If the financial arrangements proposed by the Government are approved by the Finance Committee (FC) of the LegCo, 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.

3. For the retail, dining, and entertainment (RDE) zone at the lower park area which will provide a gross floor area of 42 000m², based on preliminary planning, it is envisaged that the OPC will carry out and complete the tender exercise between Financial Year¹ (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 OP will start receiving the rent/revenue share derived by then.

4. The OPC will also undertake the tender 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 OP will start receiving rent/revenue share derived by then.

¹ "Financial Year" mentioned herein 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.

5. In terms of ticketing, it is envisaged that the OPC will introduce the pay-as-you-go ticketing regime in FY 2023-24.

ATTENDANCE PROJECTION AND FINANCIAL SITUATION

6. In projecting the attendance of OP and the financial situation of the OPC, we adopt very prudent assumptions. Hence, our conclusion that the OPC would be able to achieve financial sustainability in the medium to long run is founded on solid grounds.

7. For local attendance, based on current projection, local attendance of OP (excluding the Water World) 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 impact the unstable development of the epidemic ahead may have on local attendance.

8. 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 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 financial projection for OP, it is envisaged that non-local attendance will only be about 1.7 million to 1.8 million which is far lower than the average annual non-local attendance of 3.92 million during the five financial years between FY 2014-15 and FY 2018-19.

9. Apart from being prudent in projecting future attendance, we are also adopting a similar 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 area in FY 2026-27 would help boost patronage of the upper park area, based on the aforementioned prudent approach in making financial projection for OP, 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 during the five financial years between FY 2014-15 and FY 2018-19.

Projection of OP's overall attendance (including the Water World) is provided at **Annex.**

10. In terms of revenue, based on the above attendance projection, it is 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 \$1,724.7 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.

11. For in-park spending per capita, based on the aforementioned prudent approach in making financial projection for OP, 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. As the projected revenue of the OPC will include the expected upfront payment for the RDE zone as well as the rent/ revenue share received for the RDE zone and the adventure zone, disclosing relevant figures might compromise the tender exercises for outsourcing these zones. To avoid affecting the integrity of the tender exercises, the Government is therefore unable to divulge any commercially sensitive details of the projected revenue.

12. For expenditure, with the OPC continuously compressing its costs rigorously, it is envisaged that the cost for running OP (excluding the Water World), inclusive of both operating and capital expenditures, will be \$1,343.5 million and \$1,434.4 million in FY 2021-22 and FY 2022-23 respectively, which is lower than the average annual cost of \$1,560.1 million (excluding the capital expenditure for developing the Water World) during the five financial years between FY 2014-15 and FY 2018-19. The above projection has yet to take into account the possible cost saving derived from the phasing out and demolition of aged facilities when OP outsources the development of the wellness zone. Hence, the projection is rather prudent. In any case, the OPC will continue to cut expenses and stringently control cost in future.

13. For the Water World, 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 300 000 which is again a rather prudent projection. It is projected that the Water World can basically achieve financial sustainability.

FINANCIAL ARRANGEMENTS AS CUSHION AGAINST THE IMPACT OF THE EPIDEMIC

14. Our proposed financial arrangements will provide the OPC with the necessary buffer, helping it to tackle the impact of the COVID-19 pandemic which might linger for a while yet, as in repeated closure of the Park and reduction of operating capacity due to social distancing measures. As set out in the paper we submitted to the Panel (Paper No. CB(4)387/20-21(01)), the proposed non-recurrent funding of \$1,664 million for the OPC is estimated on the basis of the one-year cost for running OP (including the Water World), inclusive of both operating and capital expenditure, with breakdown as follows –

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

15. 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 up to end of June 2022. Nonetheless, when save 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 continuous closure of the Park should be relatively small. Hence, 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.

16. No doubt there are still plenty of uncertainties in the post-pandemic recovery period. Hence, in addition to the non-recurrent funding above, we propose to provide the OPC with a time-limited subvention of \$280 million per year, or at the expenditure level of the preceding year, whichever is the less, for four years starting from 2022-23. This subvention will support OPC's implementation of the conservation and education initiatives proposed under the future strategy, and ensure that it is endowed with sufficient resources for taking forward the relevant work while maintaining a healthy financial position.

17. If the Government loans are restructured, together with the non-recurrent funding and time-limited subvention mentioned above, we envisage that the OPC will be able to maintain a positive cash balance since FY 2021-22 and achieve a positive

EBITDA (i.e. earnings before interest, taxes, depreciation, and amortisation) and net cash inflow starting from FY 2024-25. The OPC should be financially sustainable in the long run without relying on Government's further financial support.

ADVICE SOUGHT

18. Members are invited to note the supplementary information provided in this paper.

19. As the current funding provided to the OPC under the financial arrangements approved by the FC (FCR(2020-21)15 refers) will only support its operation up to end of June 2021, and as the OPC has to commence as soon as possible its preparation work for the opening of the Water World in summer this year, including the recruitment and training of more than 400 employees, we hope that the Panel would resume the discussion as soon as possible and support the submission of the proposed non-recurrent funding and restructuring of Government loans as set out in Paper No. CB(4)387/20-21(01) to the FC of the LegCo for approval.

**Tourism Commission
Commerce and Economic Development Bureau
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Ocean Park's Overall Attendance (Including the Water World)

