

For information
23 July 2009

Legislative Council Panel on Economic Development

Ocean Park Admission Pricing

PURPOSE

This paper provides information on the Ocean Park (“OP”)’s admission price adjustment.

BACKGROUND

2. OP is one of the most popular paid-attractions in Hong Kong. In its last financial year ended 30 June 2009, it received over 4.8 million guests. OP is managed by the Ocean Park Corporation (“OPC”), a non-profit-distributing statutory organisation established under section 3(1) of the Ocean Park Corporation Ordinance (Chapter 388). OPC is financially independent and does not receive any subvention from the Government. Revenue generated from admission fees is OPC’s major source of income, and will be re-invested in OP’s operation, development, as well as education and conservation initiatives through the Ocean Park Conservation Fund.

3. At present, the redevelopment project of OP is progressing in full swing. Under its \$5.55 billion redevelopment project¹, OP will be redeveloped into a world-class “education-cum-entertainment” facility with its attractions doubled to more than 70 by 2012. The first new attraction, *Skyfair*, was opened in February 2007, followed by the operation of a new veterinary hospital in December 2008. In April 2009, the *Amazing Asian Animals*, the world’s first integrated indoor and outdoor multi-Asian-species exhibit, was opened. Another major attraction, the *Ocean Express Funicular Train* will be opened to guests from mid-August onwards. Works of other major attractions, including the *Aqua City*, *Rainforest*, *Thrill Mountain* and *Polar Adventure*, are in progress.

¹ The Finance Committee of the Legislative Council approved on 16 December 2005 the Administration’s proposal of providing to OPC a subordinated loan of \$1,387.5 million under the Loan Fund for a period of 25 years (at a fixed interest rate of 5% per annum) and guaranteeing a \$1,387.5 million commercial loan and interest arising therefrom. To cover the other half of the project cost, OPC has procured another set of commercial loans of \$2,775 million with no recourse to the Government. In other words, 25% of the project cost is covered by Government’s subordinated loan and 75% by commercial loans.

4. According to OPC, the operating costs² (such as labour, animal care, maintenance costs) of the Park have been rising with the addition of new attractions. From 2005 to 2009, OPC has employed an addition of 424 full-time employees and created 1 116 part-time jobs in implementing the redevelopment project, operating the new attractions as well as enhancing entertainment and guest services experience. Moreover, OPC has to make provisions for repaying the loans taken for the redevelopment project from 2011 onwards. Given that the OPC is not receiving any Government subvention for the redevelopment project and that the source of finance for the project was entirely from loans, OPC has to maintain a prudent and going-concern fiscal position to meet its debt servicing obligations. As repayment of the loans and annual interest will total \$300 million per annum commencing December 2011, OPC considers it necessary to adjust its admission fee to generate sufficient EBITDA³ so that cash could be accumulated gradually to meet its upcoming financial requirements and contingencies.

5. It was against this background that OPC announced on 1 July 2009 its adjustment in admission price and enhanced social programmes with effect from 1 August 2009. OP's pricing arrangements and details of the social programmes prepared by OPC are set out at Annex.

6. Members are invited to note the above information.

**Tourism Commission
Commerce and Economic Development Bureau
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² The average monthly operating costs for 2007/2008 were \$55 million. The operating costs have been increasing given more facilities delivered in the redevelopment project, enhancement in entertainment and guests' services improvement and inflation.

³ EBITDA means earnings before interest, tax, depreciation and amortisation.

OCEAN PARK ADMISSION PRICING AMENDMENT

BACKGROUND

1. Ocean Park has announced a new general admission price effective August 1, 2009 as follows:

Ocean Park Day Admission

| <i>Ticket Type</i> | <i>General Admission</i> |
|--|--------------------------|
| Adult | HK\$250 |
| Child (Aged 3-11) | HK\$125 |
| Child (Aged below 3) | Free |
| Senior Citizens (holders of Hong Kong Identity Card or Senior Citizen Card aged 65 or above) | Free |

OBJECTIVE

2. The objective of this paper is to set out the rationale behind the pricing amendment. The major focus will be the financial funding needed to support the HK\$5.55 billion Master Redevelopment Project (MRP) which is fully underway now and anticipated to be completed in 2012 and to maintain/manage this world class theme park.

3. The current general admission price of \$208 for adult and \$103 for child has been in effect since October, 2007. Ocean Park has maintained this rate now for almost 2 years and during this time, has been prudently, efficiently and effectively managing the park with financial success, in spite of rising operating costs all around and preparation for the upcoming debt service arising from the financing of the MRP.

Master Redevelopment Plan (MRP)

4. The MRP is an excellent and much needed project that will help to pave the way for the future of Ocean Park. It provides more jobs for Hong Kong citizens, contributes to Hong Kong's economy, and will help to maintain its image as a proud achievement of Hong Kong. Ocean Park is a major icon of Hong Kong tourism. It must continue to grow in order to contribute to and benefit Hong Kong's vital tourism industry.

5. The cost of the MRP is HK\$5.55 billion and when completed in 2012 will grow the number of attractions in the park from 35 to over 70. One major themed area from the MRP, the Amazing Asian Animals opened in April 2009 and the next major attraction to open will be the Ocean Express Funicular Train in September 2009.

6. Ocean Park is a non-profit-distributing statutory body and receives no subsidies or subvention from the government or any other entity. It is the sole responsibility of the Board and Management team to manage the Park in a prudent, professional manner to ensure it is a financially sound and viable business now and in preparation for the future. All the income and surplus it generates is put towards maintaining the world class product and service quality of the park and to support its expansion to ensure the product is always fresh and appealing for its guests. Expansion also ensures that Ocean Park will always be the best it can be for Hong Kong citizens as well as the millions of tourists from around the world who visit the Park.

7. Total funding for the MRP of HK\$5.55 billion is in the form of loans and the repayment will begin in 2011. As such, the objective of OP's pricing strategy is to raise admission gradually from now in order to save up for the necessary repayment of the loan for the MRP.

8. Other MRP lands to open in the next 3 years include Aqua City (Grand Aquarium), Rain Forest, Thrill Mountain, and Polar Adventure.

9. The MRP was planned in 2004/05 and implemented to improve Ocean Park and its competitiveness after over 25 years of operation. The expansion of the Park and the new attractions added will help to improve the park to drive tourism, not only to Ocean Park, but to Hong Kong. Following the mandate of the Park, the MRP brings world class facilities for animal husbandry and care, such as the veterinary center, the AAA, Grand Aquarium, Rain Forest and ultimately Polar Zone.

10. Hong Kong can take tremendous pride in all these additions. The Veterinary center for instance is state of the art and will allow Ocean Park and Hong Kong to be in the forefront of marine mammal care in the world.

11. The Giant Panda Adventure in the AAA uses ETF material for its construction and is the first of its kind in Hong Kong. ETF material allows the introduction of sunlight into the attraction to support the GREEN and conservation initiatives of the Park.

12. The upcoming Grand Aquarium will be the largest aquarium in Asia to include a wide variety of new marine life and will draw great excitement from all who visit the facility. Another first for Ocean Park and Hong Kong will be the Polar Zone, an area dedicated to the North and South Pole, providing families and children an opportunity to learn more about the wildlife from these frozen wonderlands.

13. The MRP will result in tremendous excitement and interest to both local residents and tourists. Ocean Park will be able to continue to maintain its strong image in the market place as a "must-see" facility. The MRP will help make the Park more attractive to support Hong Kong tourism.

14. Aside from the education and conservation programs with all the animals, Ocean Park will also provide great excitement for the more adventurous in Thrill Mountain. If it spins, twirls, drops, or speeds down a track, it will be at Thrill Mountain.

15. The implementation date of August 1, 2009 was selected for a number of reasons which include:

- a. Ocean Park has maintained the current general admission price of \$208 for adult and \$103 for child now for almost 2 years.
- b. The summer event, “Ocean Park Pre-historic Summer Splash” is in full swing with its magnificent dinosaur exhibit, a pre-historic theme water play area for kids, and the ICE AGE 3 attraction. These additional elements mean a total of over 60 attractions for the summer.
- c. The Amazing Asian Animals is fully opened and receiving good public response.
- d. The Ocean Express, Funicular Train will have a soft opening in mid-August with a grand opening in September.
- e. Again, Ocean Park continues to deliver its Value for Money proposition, ensuring that with new pricing, it is supported by new product offering.

This timing is appropriate to amend admission price as there are more attractions available at this time and Ocean Park can maintain its good value for money proposition.

16. The following summarizes the MRP loan structure for Government’s information:

- a. \$1,387.50 million 25 years Government Loan (Repayment Period from 2021 - 2031);
- b. \$1,387.50 million 15 years Commercial Loan, Guaranteed by the Government (Repayment Period from 2016 - 2021); and,
- c. \$2,775.00 million 15 years non-recourse Commercial Loan (Repayment Period from 2011 - 2021).

PRUDENT MANAGEMENT

17. Since the Park relies solely on itself to generate revenue, it is essential that it adjusts its ticket pricing from time to time to cope with all of its operating costs while developing a healthy financial position to support its growth and ensure a positive and sustainable future for the Park. In the 32 year history of the company, Ocean Park has never required any subsidies or grants from the government nor ever been a burden to the people of Hong Kong, and the Park wants to ensure that it will remain this way in the future. This priority is a principal reason for the Park’s pricing strategies and operating philosophy.

18. With the MRP, there is the need for the Corporation to generate sufficient EBITDA to ensure that the Corporation will accumulate cash resources to meet the following:

- a. The rising operating costs, following the completion of the different MRP facilities;
- b. The repayment of the MRP loan and the annual interest expenses totaling approximately \$300 million per annum commencing December 31, 2011; and,
- c. A sufficient cushion for business downturn and contingencies.

AMENDMENT RATIONALE

VALUE FOR MONEY

19. Notwithstanding necessary pricing adjustments, Ocean Park has and will always provide excellent value for money. As mentioned, Ocean Park has not adjusted its pricing since October, 2007, over 21 months ago. During this period, it successfully continued to provide great value for money through its 5 seasonal special events (Summer, Halloween, Christmas, Chinese New Year and Easter) and fresh product such as the Amazing Asian Animals.

20. With the current summer event, “Pre-Historic Summer Splash” and the opening of the Amazing Asian Animals, there are over 60 attractions at Ocean Park.

21. During each of the 5 special events, new attractions are added to supplement the permanent ones. Thus 5 times a year, during these periods, even more product is offered to park guests.

22. Ocean Park compares very favorably with other forms of entertainment in the market. Some examples are:

- a. movie admission is HK\$75 for one and a half hours entertainment, approximately HK\$50 per hour
- b. concert admission is HK\$300 and up for 2 hours of entertainment, approximately HK\$150 per hour
- c. admission to major theme parks in the world range from US\$65 to US\$95
- d. Ocean Park is HK\$250 for 8 hours of entertainment, approximately HK\$31.25 per hour

Ocean Park stands out as the best value for money. Compared to similar major theme parks around the world, Ocean Park is inexpensive and one of the most reasonably priced.

TIMING FOR PRICE AMENDMENT

23. Ocean Park Corporation has a fiduciary responsibility to manage the Park in a professional way and a financially sustainable manner, now and in the future. Ocean Park should always be a pride of Hong Kong to its citizens and be regarded as a world class theme park globally. Pricing adjustments will always be necessary to ensure sufficient funding to accomplish this task.

24. Ocean Park traditionally announces price adjustments to the public one month prior to implementation and management did so on July 1 to remain consistent with its normal practice.

25. The price adjustment, representing a 20% increase will provide much needed additional revenues to support the MRP, management of the Park, and provide Ocean Park with more opportunities to develop promotions throughout the year for both the local and tourist market.

26. Throughout the year, Ocean Park executes many promotional programs that offer discounts to local residents (recent examples, \$1 promotion, Wellcome promotion). Programs like these will be developed throughout the year in response to market situation and to ensure that Ocean Park is consistently affordable to all.

27. SmartFun Annual Pass is an excellent program (one price for unlimited visits throughout the year) that is entrenched in the market place for many years. Annual pass price is less than the price of 3 visits.

28. SmartFun Annual Pass also has various promotions throughout the year, pending market situation, which provides discounts and incentives to make its price attractive. To coincide with the price amendment, from August to September, 2009, SmartFun purchasers will be provided a benefit of 2 additional months of validity (total 14 months validity).

Local Market

29. Notwithstanding necessary price adjustments over the years, Ocean Park is always a responsible and caring company within the Hong Kong community and takes its Corporate Social Responsibility very seriously. Price adjustments are inevitable but social responsibility is never forgotten which is why Ocean Park has implemented another CSR program on July 1, 2009 (refer to item 30 below). With its currently existing initiatives, there are now 13 CSR programs at Ocean Park which cover for example, social welfare groups, senior citizens, CSSA recipients and disabled persons, etc. In Financial year 08/09, social responsibility programs totaled a cash value of \$52 million.

Note: Potential Beneficiaries (people) as confirmed by the social welfare department of some of these CSR initiatives in Hong Kong are as stated below:

| | | | |
|----|---|---|-------------|
| a. | Social welfare groups (\$20 welfare tickets) | = | 950,000 |
| b. | Senior Citizen (free) | = | 880,000 |
| c. | Birthday person (free) | = | 7,000,000 # |
| d. | Disability person (free) (50% off for companion) | = | 40,000 |
| e. | Each year, IDDP Day (free) | = | 4,000 ^ |

Population of Hong Kong

^ Free admission provided by Ocean Park to celebrate the International Day of the Disabled

30. Beginning July 1 2009, individuals eligible for support from the Comprehensive Social Security Assistance (CSSA) Scheme and presenting the valid Certificate of Comprehensive Social Security Assistance Recipients (for Medical Waivers) issued by the Social Welfare Department can visit Ocean Park during the day at a special admission rate of \$20. There are approximately 480,000 cases of CSSA each month in Hong Kong and all of these are eligible for this new benefit. This statistic is from the Social Welfare Department. As of July 10 2009, already 1,052 Hong Kong citizens have enjoyed this special rate.

31. In addition, the \$2 million student subsidy fund set up in October 2007 to enable school children from disadvantaged families to take part in programs run by the Ocean Park Academy (OPA) each year, at no cost, will have the eligibility extended to include more students in need.

32. In addition to the established CSR programs, Ocean Park consistently throughout each year donates tickets to a number of charities in Hong Kong to support their efforts in the community. The Community Chest, Yan Oi Tong, Tung Wah Hospitals are examples of recipients of Ocean Park's social caring responsibility. Ocean Park is also a major contributor to Operation Santa Claus and unfortunate emergencies that arise such as the Sichuan Earthquake last year.

33. Ocean Park is a major supporter of education and conservation in Hong Kong. Over 30,000 students each year attend education programs organized by Ocean Park and these are heavily subsidized by the Park.

34. OPCFHK, the conservation arm of Ocean Park supports many conservation projects in and outside of Hong Kong. \$1 from each admission ticket sold at Ocean Park goes to support OPCFHK and its numerous conservation projects. These projects benefit a number of university students and in recent years, have also provided financial support to Wolong Giant Panda Reserve for Giant Panda conservation. Financial support has also been provided for the restoration in Sichuan Province following the major earth quake last year.

35. With the price amendment and resulting additional revenues, Ocean Park is able to develop more promotions throughout the year providing discount benefits and incentives for local residents to enjoy the Park.

36. As mentioned above, the social initiatives implemented by Ocean Park in fiscal 08/09 amounted to a value of \$52 million. The amendment in pricing directly affects the Park's ability to provide more for the community. The Park desires to be "Hong Kong People's Park" and as such needs to continually enhance its corporate social responsibility. This cannot be done without the ability to generate adequate funds through its operation. Since it relies on admission for much of its revenues, pricing adjustments from time to time are necessary to ensure that it will always have sufficient funds to support its social obligation together with supporting its operation and growth with the MRP.

TOURISM

37. Ocean Park works very closely to support all local tour operators and provides very special discounted rates to them to develop their tour itineraries to Hong Kong.

38. All local tour operators have been informed that in spite of the general admission price adjustment on August 1 2009, their special rate would be maintained at least through December 2009. This shows the enduring support to them by Ocean Park allowing them time to adjust their tour programs and communicate with their clients. Ocean Park has a long and well cultivated relationship with the trade and work closely with them to ensure its ticket pricing is considerate of their needs, as well as that of the Park, and allows the Park to be included as a part of their tour package itinerary.

39. Ocean Park, with a clear understanding of the tour business in Hong Kong and the importance of the role of the tour operators, advised them of the impending admission pricing amendment ahead of its official announcement on July 1. It was also explicit to them that their special pricing for developing tour groups would be maintained through December 31, 2009. As such, the amendment to the general admission pricing does not affect the tour operators with their groups. Some comments were received that as a result of maintaining their special rate, they now have a wider margin to work with which is a benefit to them.

40. Ocean Park will review their rate at the end of 2009 and will only consider amending the tour operator rate if the market situation warrants it.

41. Ocean Park is very cognizant and aware of the importance of the local tour operator to bring visitors to Hong Kong and to the Park. As such, it maintains a very close relationship with them and over the years has proven its consistent support of their efforts with both groups and individual travelers.

42. In addition to their already preferred rate and pending market situation throughout the year, Ocean Park consistently offers special promotional rates to the tour operators to help drive tourism to Hong Kong and to the Park. During the first half of 2009, Ocean Park provided a very special offer to the major tour operators in view of the global financial economic slowdown which affected Hong Kong tourism. This was very successful and generated very good returns in tourist arrivals to Hong Kong and Ocean Park.

43. Due to limited promotional funds, Ocean Park works closely with the HKTB to stretch its marketing dollars and impact in destination marketing. The Park participates in all HKTB travel missions and sales activities worldwide and supports HKTB tactical advertising in specific markets.

44. Ocean Park enthusiastically and regularly welcomes HKTB fam trips, its regional directors and staff to visit and learn about the Park to help them better promote Hong Kong and Ocean Park in the field.

CONCLUSION

We believe the revised pricing will help Ocean Park in making the Park into a world class theme park and one of the best in the world.

Ocean Park Corporation
July 2009