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Mr Derek LO
Clerk to Legislative Council Panel on Economic Development
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

19 September 2013

Dear Mr LO,

**Legislative Council Panel on Economic Development
Follow-up to the meeting on 14 December 2010
“Consultancy Study on Developing the
Area Adjacent to the Aberdeen Wholesale Fish Market
into Dining and Tourist Related Facilities”**

At the meeting of the Legislative Council Panel on Economic Development held on 14 December 2010, Members discussed with the Tourism Commission (TC) on the suggestion of developing the area adjacent to the Aberdeen Wholesale Fish Market (the Market) into dining and tourist facilities. The Administration was requested to report to the Panel the study findings of the proposed project. Our reply is as follows.

In order to thoroughly study the proposed project, TC appointed a consultant to examine the business and financial viability of developing the basketball court adjacent to the Market and some areas within the Market into tourist attractions (including viewing platform, seafood restaurant and other related tourist facilities) in November 2011. According to the results of the analysis by the consultant, this project, as compared to other similar developments, lacks certain elements that could make it a successful tourist attraction. These elements involve mainly the physical limitations associated with the project site that could not be easily overcome. Since the scale of the project is relatively small, from the tourism perspective it limits the variety of dining options that could be offered. Meanwhile, the lack of attractions in its neighbouring area makes it even more difficult to be commercially attractive.

In the course of the consultancy study, the consultant has interviewed 21 food and beverage operators. Only two of them expressed that they may be interested to operate the proposed dining facilities provided that certain favourable conditions, such as the provision of alfresco dining, sufficient car parking spaces available and long lease term, etc. However, as the business potential of the project is relatively low, it will possibly become a long term burden of the Government and cannot meet the public's expectation on proper utilization of public funds, if the Government bears the construction costs and concurrently provides concessionary terms (e.g. long lease term and below market rental rates) to attract private operators to run the project with profits. On the other hand, this project will become less attractive from the tourism perspective if there are no alfresco dining facilities. However, if the rooftop is used for the provision of alfresco dining facilities, the existing basketball court cannot be re-provided on site.

Based on the results and analysis of the consultancy study, we consider that there is not sufficient rationale to support the development of the Market and its adjacent areas in the form of a tourist attraction. We reported the findings of the consultancy study to the Community Affairs and Tourism Development Committee under the Southern District Council (SDC) in January 2013 and the relevant document is at Annex for Members' reference. Nevertheless, we understand that SDC is considering allocating funds from the "Signature Project Scheme" to develop seafood dining facilities near the Market in the form of a district project.

We will continue to closely liaise with the tourism industry and the Hong Kong Tourism Board for active promotion in order to widely introduce the local characteristics of Aberdeen to all visitors.



(Ms Emily MO)
for Commissioner for Tourism

Southern District Council
Community Affairs and Tourism Development Committee

**Consultancy study on developing the
area adjacent to the Aberdeen Wholesale
Fish Market into dining and tourist related facilities**

Purpose

This paper aims to report to members the findings of the consultancy study on the business and financial viability of developing the area adjacent to the Aberdeen Wholesale Fish Market (the Market) into tourist facilities with a theme of seafood dining.

Background

2. The Tourism Commission (TC) and the Southern District Council have been exploring ways to enhance the overall tourism attractiveness of Aberdeen area and the Southern District. There was a suggestion to develop the Market currently managed by the Fish Marketing Organisation (FMO) and the area adjacent to it into tourist facilities with a theme of seafood restaurants. To thoroughly examine the business and financial viability of the project, the TC appointed the Scott Wilson Ltd. (the Consultant) to carry out a study in November 2011. The consultancy report has recently been completed.

Major findings of the consultancy report

3. The proposed project site is located near the Market, which mainly consists of the basketball court adjacent to the western boundary of the Market and some areas within the Market managed by FMO, comprising an electricity substation and a refuse collection point (location plan at Annex 1). Main content of the project is to develop the proposed site into a 4-storey building providing various dining and tourist facilities, including more than one restaurant with seafood cuisine as the main theme and the provision of a viewing deck.

4. There are two scenarios for the proposed project:

“Scenario 1”: Reserve the rooftop of the new building for the re-provisioning of the existing basketball court.

“Scenario 2”: Use the rooftop of the new building for al-fresco dining.

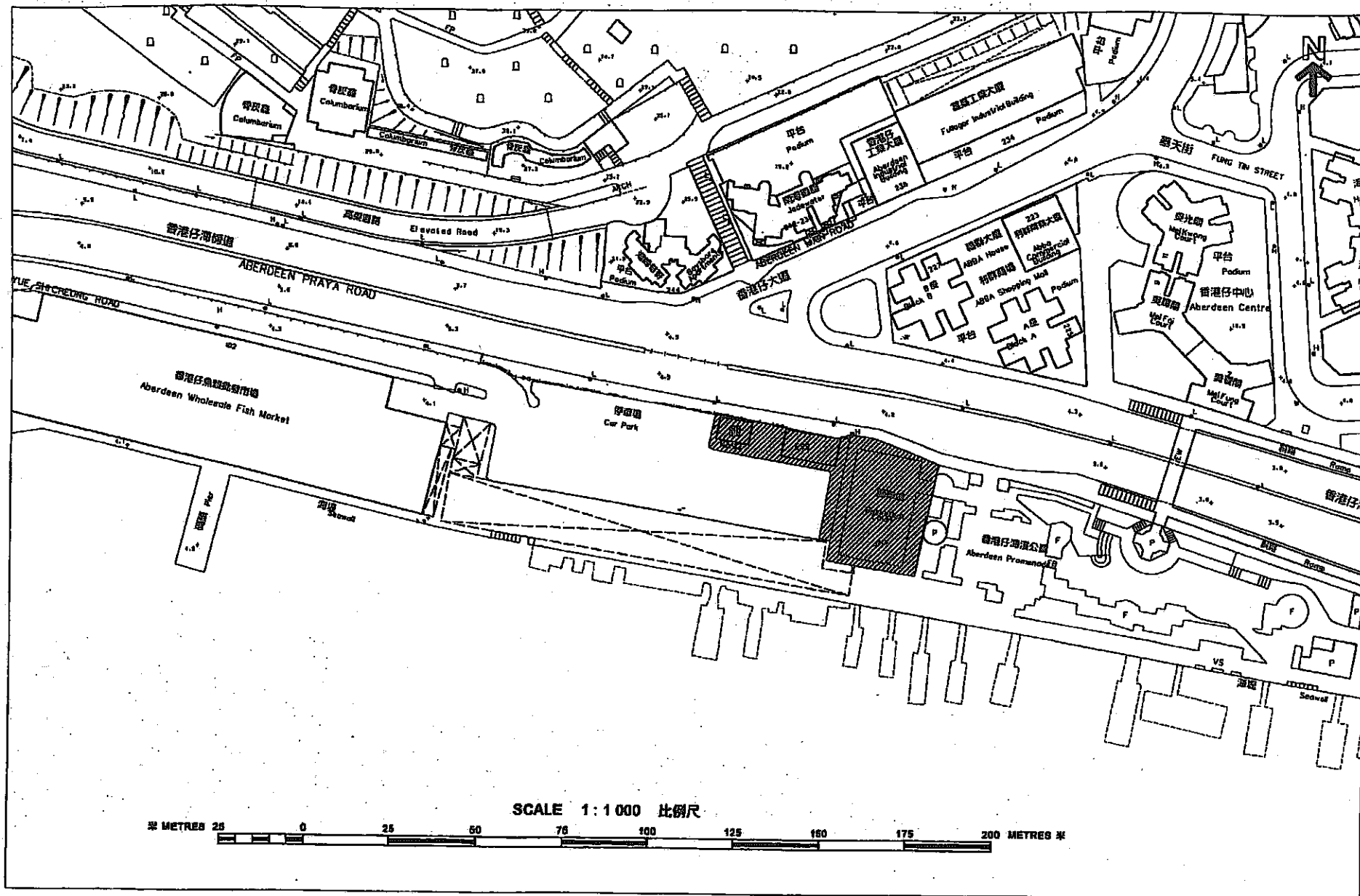
5. The preliminary construction costs of the project are estimated to be HK\$ 81.8 million (scenario 1) and HK\$ 83.2 million (scenario 2) (both at 2012 prices).
6. The Consultant has assessed various modes of operation including Public-Private Partnerships. They have selected five of them for in-depth study, including lease, outsourcing, Design-Build-Finance-Operate-Transfer (DBFOT) with government financial support, joint venture between the government and the private sector, and DBFOT without government’s financial support.
7. According to the results of the analysis by the Consultant, this project, as compared to other similar developments in Hong Kong (such as Jumbo Kingdom and Lei Yue Mun), lacks certain elements that could make it a successful tourist attraction. These elements involved mainly the physical limitations associated with the project site that could not be easily overcome, such as the project’s scale, location and lack of sufficient car parking spaces at the site. Since the scale of the project is relatively small, from the tourism perspective it limits the variety of dining options that could be offered. Meanwhile, the lack of attractions in its neighbouring area makes it even more difficult to be commercially attractive.
8. In the course of the consultancy study, the Consultant has interviewed 21 food and beverage operators. Only two of them expressed that they may be interested to operate the proposed dining facilities provided that certain favourable conditions, such as the provision of alfresco dining, sufficient car parking spaces available and long lease term etc. However, as the business potential of the project is relatively low, it will possibly become a long term burden of the Government and cannot meet the public’s expectation on proper utilization of public funds, if the Government is to bear the construction costs and concurrently provides concessionary terms (eg. long lease term and below market rental rates) to attract private operators to run the project with profits. On the other hand, this project will become less attractive from the tourism perspective if there are no alfresco dining facilities. However, if the rooftop is used for the provision of alfresco dining facilities, the existing basketball court could not be re-provided on site.
9. Based on the results and analysis of the consultancy study, we think that there is not sufficient rationale to support the development of the project in the form of a tourist attraction. Nevertheless, we do not rule out the option that the local community can develop dining facilities there with an appropriate scale as a district project instead. We will closely liaise with the tourism industry and the

Hong Kong Tourism Board for active promotion in order to widely introduce the local characteristics of Aberdeen to all visitors.

10. The executive summary of the consultancy study is at Annex 2.

Tourism Commission
January 2013

Annex 1



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EXECUTIVE SUMMARY

1. Background

The proposal of developing a fisherman's wharf in Aberdeen was first mentioned in the 1999-2000 Budget. The Tourism Commission (TC) of the Government of Hong Kong Special Administrative Region (the Government) took up the Aberdeen Tourism Project (ATP) in 2005 and a business consultant was appointed in 2006 to develop a conceptual design for the ATP. However, a financial consultant appointed by TC in 2008 did not consider the ATP commercially viable in early 2009.

In April 2009, TC reported the financial consultant's findings to the Southern District Council (SDC) and Legislative Council Panel on Economic Development, and announced that the Government would adopt a pragmatic approach to take forward the ATP by using public funds to improve the promenade on both sides of the Aberdeen Harbour and Ap Lei Chau Main Street in order to showcase the characteristics of a fishermen's village.

Apart from the above improvement works, TC also agreed to explore further ways to enhance the tourism appeal of Aberdeen in the long run, which include, inter alia, developing dining and tourist facilities at/near the Aberdeen Wholesale Fish Market (the Market) currently managed by the Fish Marketing Organisation (FMO).

The proposed Project site is located at/near the Market, which mainly consists of the basketball court adjacent to the western boundary of the Market and some areas within the Market managed by FMO, an electricity substation (ESS) and a refuse collection point (RCP). The site has a total area of about 1,400m².

The key development requirements and planning parameters of the Project include:

(a) redeveloping the proposed site into a 4-storey building providing various dining and tourist facilities with the following key planning parameters:

- Maximum permissible gross floor area is 3500m²;
- Maximum site coverage is 60%; and
- Maximum building height is 4 storeys (excluding basement).

(b) provision of more than one restaurant with seafood cuisine as the main theme;

(c) provision of tourist facilities which could enhance the tourism appeal of the Aberdeen Harbour;

(d) re-provision of the existing basketball court to the rooftop of the new building;

(e) re-provision of the FMO souvenir shop within the new building;

(f) re-provision of the existing ESS and RCP within the new building without affecting the operation of the Market;

(g) provision of a viewing deck on the rooftop of the new building;

(h) provision of loading/unloading bays and private car parking spaces on the ground floor of the new building; and

(i) provision of coach pick-up/drop-off points on Aberdeen Praya Road for visitors' convenience.

2. Objective of the Study

Scott Wilson Ltd (the Consultant) was appointed by TC in December 2011 to undertake a Business Viability Study (the Study) for the proposed dining and tourist facilities (the Facility) at/near the Aberdeen Wholesale Fish Market (the Project).

Specifically, the objectives of the Study are to:

- evaluate the business potential of the Project and assist Government in ascertaining the interest level of market players;
- advise on the financial viability of the Project under various modes of operation including Public-Private Partnerships; and
- on the basis of findings of the above, recommend a model for consideration of future implementation of the Project.

3. Study Methodology

The methodology used to carry out the Study followed five major stages: (i) the development of the integrated design concept; (ii) evaluation of business potential of the Project; (iii) analysis of financial viability of the Project; (iv) assessment of modes of operation; and (v) recommendation on mode of operation.

3.1 Integrated design concept

Using the key development requirements and planning parameters set out above as the basis, the Consultant developed an integrated design concept (the design concept) that would maximise the propositions and appeal of the Project to tourists, local Hong Kong residents and other visitors.

The design concept proposes that a 4-storey building developed at the Project site (this is referred to the "Project building" hereafter) would offer two restaurants – one Chinese style and the other non-Chinese/Western style - with seafood as their main themes. These restaurants would occupy the majority of the floor spaces on the first, second and third floors of the Project building and are complemented by a number of facilities which would enhance the overall attractiveness of the whole Project:

- provision of 10 private car parking spaces and 3 loading/unloading bays on the ground floor;
- a coach layby located along the Aberdeen Praya Road and within the walking distance from the Project site;
- a small retail area on the ground floor;
- The re-provision of the existing FMO souvenir shop and a public exhibition area next to it on the first floor – the exhibition area would serve as an interpretation centre of the Aberdeen Wholesale Fish Market, the history and heritage of the fishermen's life in Aberdeen etc.;
- A café and bar on the second floor; and
- A public viewing deck for visitors offering a good view of Aberdeen harbour on the third floor.

The rooftop of the new building is reserved for the re-provisioning of the existing basketball court (this is referred as 'Scenario 1' hereafter). An alternative design has also been developed with the rooftop being used for al-fresco dining instead (this is referred as 'Scenario 2' hereafter).

In order to minimise the construction costs and potential disruption to the operation of the Market, the existing ESS and RCP have been left untouched and the design concept has been developed to 'work around' the structure.

The total GFA of the new building is 2,714.5m².

3.2 Evaluation of business potential

The business potential of the Project was evaluated based on both qualitative and quantitative analyses.

The former comprised (i) case studies of similar local developments in Hong Kong; (ii) identification of opportunities and threats to the business potential of the Project in view of neighbouring development plans and; (iii) market sounding exercise collecting opinions and views from private sector.

The latter involved estimating the potential revenue generated by the Project based on the capacity of the dining facilities and the potential market for the proposed dining facilities. The estimated figures are also validated by reference to the existing demand for Jumbo Kingdom.

Qualitative analysis

Case study analysis

Case study analysis was undertaken and covered 13 attractions (10 of which are were selected based on being the ten most visited tourist attractions in Hong Kong in 2010) in Hong Kong. These include:

- Avenue of Stars
- Victoria Peak
- Ladies Market & Temple Street
- Golden Bauhinia Square
- Jumbo Kingdom
- Ocean Park
- Hong Kong Disneyland
- Giant Buddha
- Lan Kwai Fong
- Stanley Market and Murray House
- Sai Kung
- Lei Yue Mun
- Wong Tai Sin

The analysis identified five major success factors that would make a tourism destination successful:

o *Variety and scale of offerings* – an attraction with a wide variety and scale of offerings ensures that it can cater for a wide spectrum of visitors from different backgrounds with different preferences. For instance, an attraction that offers sight-seeing, shopping and dining experiences would be able to meet the different needs of its visitors (e.g. the Peak).

o *Availability of attractions in the vicinity areas* – in addition to the offerings offered by the attraction itself, the availability of activities and attractions in the vicinity areas would help create a mass of visitors to that particular area. This 'complementary effect' would incentivise the visitors to visit and spend longer time around that particular area.

- o *Accessibility* – the ease of which visitors can travel to a particular destination is important to the success of the destination. These include availability of sufficient car parking spaces, accessibility by other transport modes such as taxis, buses and mass transit rail (MTR) etc.
- o *Cost of entry* – an attraction with free entry would encourage visitors to visit.
- o *Neighbouring area* – A successful attraction relies not only on overseas tourists but also the patronage of local residents, especially for the dining components of the attraction. Having a large and affluent neighbouring area would help provide the business with a local customer base. For example, having offices and commercial buildings nearby would greatly enhance the business potential of a dining facility.

Review of the business potential of the Project in view of neighbouring development plans

The following neighbouring development plans had been reviewed in order to identify their potential impacts on the business potential of the Project:

- Construction of the MTR South Island Line (East) and its associated property developments;
- Redevelopment plans of the Ocean Park;
- Improvement works of the Aberdeen promenades and Ap Lei Chau Main Street areas;
- Harbour Area Treatment Scheme; and
- Southern District Literary Trail.

Market sounding exercise

The Consultant contacted 82 food & beverage (F&B) operators in Hong Kong and a total of 21 F&B operators with a wide variety of size offering a wide range of cuisines were interviewed as part of the market sounding exercise.

Structured interview approach was used and a questionnaire was developed for the purpose of the market sounding exercise. Their views and opinions on each of the following aspects in relation to the Project were collected:

- business potential of the Project
- their interests in operating the proposed dining facilities in future
- operational and financial issues associated with the dining facilities
- proposed integrated conceptual design

Following the completion of the market sounding exercise, the proposed integrated conceptual design was revised based on the comments received from the private sector.

Quantitative analysis

The quantitative analysis focused on three areas in an attempt to triangulate and obtain a reasonable range of potential revenue that could be generated by the Project:

- a) estimation of the revenues of Jumbo Kingdom which is considered to be the closest in nature to the Project in terms of geographical proximity, offerings and target market;

- b) assessment of the potential market based on the dining and spending habits of overseas tourists and local Hong Kong residents; and
- c) assessing the potential revenue of each dining facility of the Project based on the known size and capacity of the restaurants and by making broad assumptions on revenue per head and occupancy rates.

As part of the assessment, the non-financial aspect of the Project, including employment, environmental and traffic impacts were also studied.

3.3 Analysis of the financial viability of the Project

Once the proposed integrated conceptual design was finalised, the capital and operation and maintenance and operating revenue of Project were estimated. Other key development and financial assumptions were also determined at this stage.

A financial model was constructed to forecast the resultant income, expenditure and profitability of the Project in response to changes to modes of operation (see Section 3.4 for the different modes of operation that have been analysed) and key assumptions.

3.4 Modes of operation

A range of possible modes of operation for the Project, including Public-Private-Partnership (PPP) options were assessed. Five options have been examined in detail, and these are:

- Option 1 – Lease: Government funding to build the Project building, outsourcing facility management (FM) services to a FM company for managing the whole building and leasing the dining facilities to private operator(s). As part of the analysis, Option 1 has been further divided into 2 sub-options where Option 1a) refers to a situation where the Government leases the dining facilities to a single private operator (the lead operator) who will then subcontract the O&M operations of the restaurants, café and bar to sub-operators; and Option 1b) refers to a situation where the Government leases the dining facilities to each individual operator directly.
- Option 2 – Outsourcing: Government funding to build the entire Project building, outsourcing FM services to a FM company for managing the whole building and outsourcing the dining facilities to private operator(s) under an O&M outsourcing service contract.
- Option 3 – Design-Build-Finance-Operate-Transfer (DBFOT) with government financial support: Private sector to design, construct, finance and operate the whole building & facilities with Government funding to bridge the funding gap. The Facility is transferred back to the Government at the end of the Concession period.
- Option 4 – Joint Venture between the government and the private sector. The Government and the private sector form a joint venture Project Company to design, construct, finance and operate the whole Facility. The two parties share all the risks, costs and benefits during the life of the Project. Equal shares between the two parties are assumed.
- Option 5 – Design-Build-Finance-Operate-Transfer (DBFOT) without government's financial support: Private sector to design, construct, finance and operate the whole building & facilities without the government funding and involvement

3.5 Recommendation of mode of operation

Based on the outcomes of evaluation of business potential, financial viability of the Project and assessment of modes of operation above, a preferred mode of operation is recommended for the future implementation of the Project.

4. Major findings of the Study

4.1 Evaluation of business potential

The outcome of the qualitative analysis suggests that, compared to other similar developments in Hong Kong such as Jumbo Kingdom and Lei Yue Mun, the Project lacks the successful factors that would make it an immediately attractive destination for both tourists and local Hong Kong residents. Specifically, it was found that the Project's size, location and lack of sufficient car parking spaces at the site, which are all the physical limitations associated with the Project site that would not be easily overcome, would be the major setbacks for it to become a successful destination.

The small scale of the Project site limits the variety of dining options that could be offered and the lack of attractions in its neighbouring area makes it even more difficult to gain the critical mass that would be required to make the Project commercially attractive.

The findings from the market sounding exercise further reinforce the fact that the business potential of the Project is low with huge commercial risks. Out of the 21 F&B operators interviewed, only two operators expressed that they may be interested to operate the proposed dining facilities provided that certain favourable conditions, such as the provision of al fresco dining, sufficient car parking spaces available and long lease term etc, are met

The quantitative analysis of the evaluation of business potential suggests that the revenue potentially generated by the Project per annum would range from HK\$ 37 million to HK\$ 53 million. The actual range of revenues generated will depend on the mix of the offerings provided in the final concept plan of the Development, the quality of the dining experience offered, how effective the marketing strategy is, the overall development of tourism sector in Hong Kong and Aberdeen as well as the conditions of the local Hong Kong economy.

The preliminary assessment on non-financial aspects suggests that the Project would create at least 74 employment opportunities during the operation phase. No major adversarial environmental and traffic impacts would be caused by the Project.

4.2 Analysis of the Financial Viability of the Project

The CAPEX of the Project building is estimated at HK\$81.8 million (Scenario 1) and HK\$ 83.2 million to build (both at 2012 prices).

Based on the five modes of operation identified above and two different scenarios for the designs of the rooftop, the financial viability of the Project was assessed.

Scenario 1 – re-provision of the existing basketball court on the rooftop

- Under Scenario 1, the only financially viable option from both the Government and the private sector's perspectives are **Option 1(a) and 1(b)**.
- With a 5% discount rate, the Government would achieve a NPV of \$ 9.8 million with an IRR of 6.6% and a payback period of 11.6 years in Option 1(a).

- Under this option, the private sector (with a 20% discount rate applied) would achieve a NPV of \$4.4 million with an IRR of 40.1% and a payback period of 3.8 years.
- Under Option 1(b), even if the Government leases to the dining facilities to individual operators, each of the operators would achieve reasonable financial returns.
- The other options are considered to be financially non-viable because of the negative NPVs incurred, and in particular, significant government funding are required to be provided by the Government under Option 3.

Scenario 2 – al fresco dining on the rooftop

- Under Scenario 2, the financially viable option from both the Government and the private sector's perspectives are **Option 1(a) and 1(b)**.
- With a 5% discount rate, the Government would achieve a NPV of \$ 22.4 million with an IRR of 8.5% and a payback period of 11.0 years in Option 1(a).
- Under this option, the private sector (with a 20% discount rate applied) would achieve a NPV of \$8.8 million with an IRR of 58.7% and a payback period of 3.0 years.
- Under Option 1(b), even if the Government leases to the dining facilities to individual operators, each of the operators would achieve reasonable financial returns.
- Specifically, the financial analysis shows, when compared to Scenario 1, the provision of al fresco dining under Scenario 2 will improve the financial performances for both the Government and the private sector.
- The other Options are considered to be financially non-viable because of the negative NPVs incurred.

Sensitivity analysis shows that the financial of Option 1(a) under Scenario 2 – this is the Lease Option with a single restaurant operator – remains valid under changes of almost all major assumptions (except if higher discount rates are adopted for the Government). This implies that in view of all the risks and uncertainties associated with the Project, this Option would be more likely to remain financially viable from both the Government and private sector's perspectives.

5. Recommendations

Throughout the course of the Study, one key message which is associated with the business viability of the proposed Facility kept emerging – that is the Project's physical constraints and limitations, such as size, scale and location, would pose significant challenges for it to be developed into a commercially viable destination on its own.

Specifically:

- The small size and scale of the Project makes it difficult to create sufficient critical mass of visitors;
- Given its location, the lack of sufficient parking spaces for the proposed dining facilities would deter many potential customers from visiting;
- Without the provision of al fresco dining, the Project would attract very little interests from the food and beverages operators. On the other hand, provision of al fresco dining at the would mean that the

existing basketball court could not be reprovisioned at the Project site; and

- Because of the Project's low business potential, in order to attract private sector's interests, attractive terms and incentives (such as long lease term, below market rental rates) would need to be provided by the Government for which the Government may be criticised.
- The market potential between HK\$37 million and HK\$ 53 million may not generate sufficient margin and profits to make it an attractive proposition to potential operators, many of whom have indicated that there are many other attractive and less risky locations to do business. In fact, most operators expressed that they would prefer to operate at locations with proven patronage (e.g. existing shopping malls or tourist attractions) where critical mass has already been built. These operators are also willing to pay higher rents to operate at these locations instead of operating at an unproven site with lower rent levels.

Although there are possible ways that can be further explored which may enhance the Project's attractiveness as a destination, it would need the cooperation and good-will from external parties (such as AWFMM merchants and FMO) which in turn would create further risks and uncertainties for the success of the Project.

The financial analysis suggests that, should the Project be implemented, the only development and operation model that would be financially viable is the lease option. And given the low interest from the private sector there is a huge risk that this Project would turn into a "white" elephant project.

Given the key findings and analysis described above, it is recommended that the Project should not be implemented, as it would be very challenging to make the Project an attractive destination to an extent to which would turn it into a commercial viable project.