

ITEM FOR FINANCE COMMITTEE

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

Subhead 700 General non-recurrent

New item “Funding Support to the Ocean Park Corporation”

LOAN FUND

HEAD 274 – TOURISM

Subhead 121 Loan for the Ocean Park Redevelopment Plans

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

Members are invited to approve –

- (a) a new commitment of \$5,425.64 million under Head 152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch) Subhead 700 General non-recurrent for providing funding to the Ocean Park Corporation to support the operation of the Ocean Park for one year, to repay the commercial loans of the Ocean Park Corporation and to settle the costs for completing the Ocean Park’s Tai Shue Wan Development Project; and
- (b) amending the terms under Loan Fund Head 274 Tourism Subhead 121 Loan for the Ocean Park Redevelopment Plans and Subhead 122 Loan for the Ocean Park’s Tai Shue Wan Development Project so that the repayments will commence in September 2021.

/PROBLEM

PROBLEM

Exacerbated by the formidable impact and challenges posed by the Coronavirus Disease 2019 (COVID-19) pandemic, the Ocean Park Corporation (OPC) is in financial dire straits and heading towards insolvency and possible liquidation in June 2020. It is of paramount importance that Government step in financially to salvage Ocean Park's operation pro tem, as we embark upon a critical and comprehensive rethink on the future of Ocean Park and chart the way forward for its rebirth.

PROPOSAL

2. We propose to –
 - (a) create a new commitment of \$5,425.64 million to provide funding to the OPC to support the operation of Ocean Park for one year (from 1 July 2020 to 30 June 2021), to repay the commercial loans of the OPC and to settle the costs for completing the Ocean Park's Tai Shue Wan Development Project (TSW Project), pending the completion of the rethink exercise; and
 - (b) amend the terms of the Loan for the Ocean Park Redevelopment Plans (MRP Government loan) and the Loan for the Ocean Park's Tai Shue Wan Development Project (TSW Government loan) so that the repayments will commence in September 2021.

JUSTIFICATION**Ocean Park's Importance to Hong Kong**

3. Ocean Park was officially open to the public in 1977. The OPC, the statutory body established to manage Ocean Park as a public recreational and educational park, operates on a self-financing basis. It does not receive any recurrent subvention from the Government. According to section 18 of the Ocean Park Corporation Ordinance (Cap. 388) (OPCO), the OPC is not empowered to issue shares or opt for equity financing to fund its operation or expansion plan. It is required to apply all its profits towards the promotion of its statutory functions.

4. With more than 40 years of iconic history, Ocean Park has become a Hong Kong brand cherished by the Hong Kong people. This home-grown theme park in which we take great pride has received more than 156 million visitors since its opening some four decades ago, offering Hong Kong people and visitors from afar a great venue for leisure and entertainment.

5. Apart from being the park of our own, and a key tourist attraction of Hong Kong with significant economic contributions, Ocean Park has all along made outstanding achievements in the fields of education and conservation. Its contributions and importance to Hong Kong are beyond doubt –

- (a) According to the estimate of the consultant of the OPC, in Financial Year (FY)¹ 2018-19, the additional spending of all Ocean Park visitors in Hong Kong amounted to over \$7.6 billion (in 2019 prices) with economic benefit generated from this additional spending exceeding \$3.9 billion (in 2019 prices);
- (b) Ocean Park currently employs about 2 000 full-time staff members and recruits more than 2 000 part-time workers during festive seasons, creating considerable employment opportunities;
- (c) Ocean Park performs a significant educational function. Its facilities and environment, together with its professional expertise on environmental protection and marine conservation, make it the ideal platform for the Education Bureau (EDB) and schools to foster student learning and teacher’s professional development relating to themes such as biodiversity, the ecosystem, sustainability and STEM² education, etc.;

Ocean Park has built one of the world’s largest zoology education teams, providing rich and diversified educational content and programmes in which nearly a million students have taken part since the early 1990s. Since 2010, Ocean Park has been working in collaboration with EDB to organise meaningful projects in STEM-related topics and production of useful resource materials;

- (d) The OPC makes enormous contributions to scientific research leading to enhanced conservation and animal care by supporting the work of the Ocean Park Conservation Foundation Hong Kong (OPCF). Since 1995, the OPC has donated over \$156 million to OPCF to fund 501 research projects on giant pandas, Chinese white dolphin, horseshoe crab, seahorse, and many other species. The OPC has been a major donor of the OPCF, contributing around half of its annual donation income. In gist, the OPC through supporting the work of OPCF has made no less significant contribution in conservation on top of education.

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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 “STEM” stands for Science, Technology, Engineering, and Mathematics.

In particular, Ocean Park has been contributing actively in the conservation and relevant research on giant pandas, through its close collaboration with the China Conservation and Research Centre for Giant Pandas. It organises the “Sichuan Week” annually with the National Forestry and Grassland Administration of Sichuan Province to promote giant pandas and other ecological conservation. Also, with Ocean Park’s support, OPCF has provided funding for the Sanjiang Field Station project in the Wolong National Nature Reserve in Sichuan. With giant pandas on the reserve as the main focus, the project aims at reducing human disturbances via community education, while raising the younger generation’s awareness towards protecting the giant panda’s habitat. At the same time, the project fosters research and management on the topic of conservation;

- (e) Native to Hong Kong, Ocean Park has been fulfilling its social responsibilities and obligations by launching different community initiatives to enable Hong Kong people from all walks of life to enjoy the Park’s offerings. These initiatives include concessionary or sponsored admission for Hong Kong residents aged 65 and above, holders of Registration Card for People with Disabilities, students, individuals and members of families receiving assistance from the Comprehensive Social Security Assistance Scheme, Hong Kong residents on their birthdays, educational institutions, and organisations registered with the Social Welfare Department. The number of beneficiaries under these initiatives was close to 640 000 in FY 2018-19, representing an aggregate value to the community equivalent to over \$306 million.

Severe challenges faced by Ocean Park

6. Ocean Park is facing severe operation and financial challenges. With intensifying regional competition and the lack of new major attractions since its last major redevelopment completed in 2012, the attendance of Ocean Park dropped from the peak of 7.7 million in FY 2012-13, to 6.0 million in FY 2015-16. While the decline in attendance decelerated in the subsequent financial years, the operation of Ocean Park bore the brunt of the persisting social incidents in the second half of 2019 which led to an unprecedented steep decline in attendance to 1.9 million in July to December, representing a drop of over 30% as compared with the same period in 2018. Worse still, the COVID-19 outbreak has resulted in more than three months’ closure of Ocean Park to date since 26 January 2020, which has further aggravated its already dismal financial situation.

7. The spiralling downward of the financial health of the OPC continued, which has recorded deficits of over \$200 million in successive years since FY 2015-16. And in FY 2018-19, the deficit more than doubled to

a staggering \$557 million. Taking into account the impact of the social incidents, the OPC earlier projected that it would face a cash flow deficit from operations of over \$600 million in FY 2019-20. This projection no longer holds though due to the COVID-19 pandemic. With the closure of Ocean Park since late January and virtually no revenue for months, OPC's already dire financial position deteriorates further. Despite the various cost-cutting measures implemented, given the high fixed costs, the cash reserve of the OPC is quickly depleting. Without any new funding support, the OPC projects that it would become insolvent in June 2020, regardless of whether the Park would re-open.

8. Well aware of the rising competition, even before the various headwinds befell Ocean Park, the OPC has already embarked on a repositioning exercise in 2018 which culminated into the Strategic Repositioning Plan (SRP). The SRP proposed to reposition Ocean Park into an adventure-themed resort destination grounded in nature and conservation through a series of new attractions together with upgrading or refurbishing existing ones. Under the SRP, the mix of amusement rides would be diversified to cater for a broader range of demographics and new self-paced coasters would be introduced to provide individualised experience for visitors. The proportion of all-weather rides would also increase to minimise the impact of inclement weather on guest experience. To take forward the SRP, we have proposed the following financial arrangements –

- (a) providing the OPC with a one-off endowment of \$10.64 billion;
- (b) deferring the repayment of the MRP Government loan and TSW Government loan by eight years from September 2021 to September 2029; and
- (c) providing interest waivers for the two Government loans above from the first day of the month immediately following the month of approval by the Finance Committee (FC).

9. We previously envisaged that the above financial arrangements would enable the OPC to defer the final repayment of its commercial loans³, which had been arranged to finance the MRP and the TSW Project; tide over its imminent financial difficulties; implement the SRP and achieve financial sustainability.

10. We presented the SRP together with the above financial arrangements to the Legislative Council Panel on Economic Development (the Panel) on 20 January 2020, and are grateful for the Panel's support for our

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³ The OPC has earlier obtained two commercial loans for financing the Ocean Park Redevelopment Plans (MRP) and the TSW Project with the total outstanding balance amounting to \$2,070 million by 30 June 2020. Furthermore, the OPC has obtained a revolving loan facility of \$1 billion which has already been fully drawn down in March 2020.

submitting the funding proposal to the FC. In light of the concerns on the business case of Ocean Park under the current mode of operation and on the SRP expressed by some Members, we started revisiting the financial package when all hell broke loose with the onslaught of the COVID-19.

Impact of COVID-19 Pandemic

11. The COVID-19 pandemic has given rise to new circumstances which cast doubts on the commercial viability of the SRP. With the aforementioned closure of Ocean Park as well as the possible impact and aftermath of the pandemic that would adversely affect the attendance and revenue of the Park, OPC's latest estimate is that the SRP may only be able to sustain the OPC until FY 2037-38. In other words, the OPC would not be able to achieve financial sustainability through the SRP as was previously envisaged.

12. Furthermore, given the global pandemic and its catastrophic impact on notably tourism and aviation, and generally on human behaviour with the emphasis on social distancing, a paradigm shift in amusement park attractions and operation is envisaged. This calls for a critical rethink on how best we should invest into the future repositioning of Ocean Park. Taking the above into account, we consider that it would no longer be prudent to support the OPC to pursue the SRP. Instead, we should proceed with a clean slate in formulating the way forward for Ocean Park.

Rethink Ocean Park's Future

13. We need to chart the way forward for Ocean Park's future taking into account the new set of constraints and economic reality, both locally and overseas, and the implications of the paradigm shift in amusement park operations worldwide, while fully capitalizing on the innate advantages of the Park, in terms of its excellent geographical location, unique shoreline and waterfront setting, not to mention its well-known branding and strengths on education and conservation.

14. The scope of and approach to this Government rethink will be fundamentally different from the repositioning exercise undertaken by the OPC in various significant ways. First, the rethink would not be inhibited by any need to maintain the status quo of Ocean Park's operation and the OPC, including their modus operandi. With a complete open mind, the rethink will comprehensively re-examine all aspects of the Park, not least its financing sources, structure and legal status, as well as the statutory functions of the OPC. We consider Ocean Park presents tremendous development potential and we should start with a clean slate and think out of the box in mapping out its future.

15. In cooperation with other relevant Bureaux and Departments, the Tourism Commission of the Commerce and Economic Development Bureau will undertake and complete the rethink exercise within a year. The target is to come up with an initial plan within six months (i.e. by end of 2020). We will then take forward the proposal with the appropriate authorities (e.g. seeking requisite funding approvals, etc.) in the rest of the year.

Creating the Window for the Rethink

Tide Over the OPC and Sustain its Scaled-down Operation

16. As mentioned in paragraph 7 above, the OPC is currently in dire financial situation and is expected to become insolvent in June 2020. If the OPC goes bust, following the winding-up process for other businesses, the liquidator to be appointed may seek to sell off as much as possible the assets of the OPC so as to pay off its creditors, and time to complete the whole process may take a number of years.

17. The implications of the liquidation process are tremendous. First and foremost, our beloved Ocean Park, as we know it today, might be lost completely and permanently. Letting Ocean Park close down would also mean the loss of a major tourism infrastructure for Hong Kong, not to mention the some 2 000 jobs involved, which is most undesirable for Hong Kong's recovery from the pandemic, dealing a heavy blow to our economy. This runs counter to our plan of reinvigorating our tourism industry once the epidemic abates. Furthermore, as of end February 2020, over 7 500 animals were kept by Ocean Park. The welfare of these animals would be threatened if the OPC goes bust as no other zoological institutions in Hong Kong would have the capacity or resources to look after such a large number of animals.

18. To buy time and provide the much needed room and flexibility for the Government to embark on the rethink exercise for Ocean Park's rebirth free from any worry of legal action or liquidation, we propose to provide funding to the OPC to fulfil its repayment obligations for commercial loans, and to sustain the operation of Ocean Park for a one-year period.

19. We must make it clear that the repayment of commercial loans for the OPC is a one-off arrangement to be made on exceptional basis due to the unique circumstances facing the OPC. We consider the loan repayments justifiable, as the OPC has, for more than four decades, operated on a self-financing basis without any recurrent Government subsidy (save for the Government loans), for the performance of such important functions including education and conservation, which otherwise would need to be taken up by Government departments with Government funding. In face of the financial difficulties, the OPC has made the

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utmost efforts to contain cost and increase revenue, but still its prospect to repay the commercial loans on its own has been made impossible by the social incidents last year and the COVID-19 outbreak this year.

20. As for the Government funding to sustain the operation of the Park for one year, we have asked the OPC to contain cost by cutting down expenses which are not essential. For instance, the OPC shall reduce the budget for sales and marketing, cease the acquisition of new animals, and suspend new capital projects in the pipeline, etc. It might also suspend some of the attractions. Nonetheless, it will strive to maintain its headcount for the operation in Hong Kong to keep jobs intact but staff cost would be compressed. Apart from the above, the OPC will be required to further explore cost-cutting measures in order to minimise the operating costs while maximising its revenue.

21. 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 proposed mechanism would enable the Government to exercise greater oversight on the expenditure and financial position of the OPC and ensure the latter would control its cost stringently. If OPC's revenue and cost saving increase significantly, the Government may suitably adjust the funding provided to the OPC. Tourism Commission will administer this monthly disbursement mechanism.

22. We also propose to fund the outstanding costs for completion of the TSW Project. The opening of the TSW Project would await the outcome of the rethink exercise in charting the way forward with Ocean Park's rebirth.

Delink Government loans from the MRP commercial loan

23. We propose that the rethink exercise should also review the arrangements of the MRP Government loan and the TSW Government loan. Before the rethink exercise has come up with the way forward, the repayment schedule and interest arrangement of the two Government loans should essentially remain unchanged.

24. Pursuant to the terms approved by the FC via FCR(2005-06)35, repayment of the MRP Government loan shall commence three months after the commercial loan for the MRP is fully repaid, the latter is originally expected to be in June 2021. Under our current proposal, repayment of the commercial loans of the OPC should take place shortly after the approval of the FC. Pursuant to the prevailing terms, the repayment of the MRP Government loan would commence

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much earlier than expected⁴. This timing would run contrary to our intention of reviewing the arrangement of the Government loans in the process of the rethink exercise. We therefore propose to amend the terms of the MRP Government loan so that its repayment would commence in September 2021. The same amendment will be made for the terms of the TSW Government loan as previously approved by the FC via FCR(2013-14)11.

Outcome of the Rethink

25. We are in no position to speculate on the outcome of the rethink process, and so we cannot estimate the financial arrangement for the OPC after the rethink process, including whether additional funding would be required for OPC's operation, and the arrangements of the Government loans. Suffices it to say that depending on the outcome of the rethink process, we would seek the approval of the FC on the eventual financial arrangements including additional resources if necessary.

FINANCIAL IMPLICATIONS

26. The rethink exercise detailed in paragraphs 13 to 15 above as well as the monthly disbursement mechanism explained in paragraph 21 above would be implemented using existing resources. As for sustaining the operation of Ocean Park for one year, repaying the commercial loans for the OPC, and settling the costs for completing the TSW Project as detailed in paragraphs 16 to 22 above, we propose creating a non-recurrent commitment of \$5,425.64 million to provide funding support to the OPC, with breakdown as follows –

	\$'000
(a) Operating costs at a reduced scale while maintaining existing headcount	1,136,517
(b) Capital expenditure ⁵	698,597
(c) Costs for settling current liabilities and possible compensation ⁶	500,000
(d) Repayment of commercial loans and related financing costs	3,090,524
Total	<u><u>5,425,638</u></u>

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⁴ For example, if the commercial loan for the MRP is fully repaid by end-June 2020 by the OPC with Government funding, the repayment of the MRP Government loan shall commence by end-September 2020.

⁵ The capital expenditure includes regular capital expenditure of the Park and costs for completing the TSW Project.

⁶ The expenses are for settling services rendered and goods received but not paid, as well as for compensating business partners for reduced operations.

27. The above estimation has not taken into account the revenue of the Park, the amount of which is subject to great uncertainties hinging on the development of the COVID-19 pandemic and how visitors react to the scaled-down operation of the Park. Also, the OPC will be asked to explore, in particular after its reopening, further cost-cutting measures which might further reduce the amount required for maintaining the Park's operation. As mentioned in paragraph 21 above, if Members support our proposal of providing funding support to the OPC, we will put in place a monthly disbursement mechanism to disburse the funding to the OPC, through which we would suitably adjust the amount of funding provided to the OPC to take into account the revenue and any other saving from further cost-cutting measures. In other words, the above non-recurrent commitment represents a ceiling of funding the Government would provide to the OPC, while the actual amount would hinge on the cost savings of and revenue received by the OPC.

28. The estimated cash flow requirement for the non-recurrent commitment is as follows –

Financial Year	\$'000
2020-21	4,069,228
2021-22	1,356,410
Total	5,425,638

29. For the two Government loans, the financial exposure of the Government pertaining to these loans shall remain the same despite the proposed amendments as there would be no change to the interest arrangement and other loan terms.

OTHER PROPOSALS CONSIDERED

Continuing to Support the SRP

30. As explained above, with the COVID-19 outbreak, both the theme park and tourism prospect will be subject to serious uncertainty. The SRP, formulated before the epidemic, may no longer be able to cater for these new circumstances.

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Letting the OPC Go Bust

31. If the Government does nothing, the OPC would go bust in June 2020. That means we will lose a recreational and educational park which have benefited so many Hong Kong people in the past few decades, some 2 000 full-time jobs, an important tourism infrastructure and together with it, its important economic, education and conservation contributions to Hong Kong.

Identifying other Financing Sources for the OPC

32. Other than using public money, we have considered whether there are other financing sources for OPC. With the uncertain prospect on the tourism and theme park business outlook, and the substantial loan exposure that OPC is carrying, it is unlikely that there would be interest from the private sector to help finance the Park. Even if there is, the OPCO does not allow the OPC to raise funds through equity financing, which is precisely the reason why the OPC has been relying on borrowing to finance its development plans so far. However, the interest incurred has constrained the OPC's capability to redevelop on its own. In any case, in view of OPC's depleting cash reserve and uncertainty on the prospect, it is unlikely that the commercial lenders would be willing to offer additional loans to the OPC. In other words, the OPC would not be able to survive and continue to operate without Government funding.

PUBLIC CONSULTATION

33. We have previously consulted the Tourism Strategy Group, the Panel, and the Southern District Council at their meetings on 15 January 2020, 20 January 2020 and 23 January 2020 respectively regarding the SRP and the proposed financial arrangements. The current proposal of sustaining the OPC for one year while embarking on a rethink exercise should have addressed the views expressed by Members and the public on the business case of the SRP.

Commerce and Economic Development Bureau
Tourism Commission
May 2020