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5 February 2021

Clerk to Panel on Economic Development  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong  
(Attn: Ms Shirley Chan)

Dear Ms Chan,

Thank you for your letter of 26 January 2021, attaching a letter from Hon Tony Tse Wai-chuen with questions on the Legislative Council Panel on Economic Development (“ED Panel”) paper of CB(4)387/20-21(01). Please find our reply (classified by themes) as follows –

#### Utilization of 2020 Funding Support

To help the Ocean Park Corporation (“OPC”) tide over the financial difficulty and embark on the rethink exercise, the Government sought and obtained the Legislative Council Finance Committee (“FC”)’s approval on 29 May 2020 for a funding of \$5,425.64 million to the OPC to :

- support the operation of Ocean Park for one year (covering its operating and capital expenditure between 1 July 2020 and 30 June 2021) up to June 2021;
- repay the commercial loans of the OPC and the related financing costs;

- settle the outstanding costs for completing the Tai Shue Wan Development Project; and
- settle any current liabilities and possible compensation.

The breakdown of the funding is as follows –

	\$ million
(a) Operating costs at a reduced scale while maintaining existing headcount	1,136
(b) Capital expenditure <sup>1</sup>	699
(c) Costs for settling current liabilities and possible compensation <sup>2</sup>	500
(d) Repayment of commercial loans and related financing costs	3,090
<b>Total</b>	<u><u>5,425</u></u>

We have disbursed the funding to the OPC to repay commercial loans and related interest. We have also been disbursing the funding to the OPC on a monthly basis, as set out in the FC paper, upon scrutiny of the monthly cash flow from the OPC. We expect that the funding will be able to support the OPC's operation up to 30 June 2021.

### Future Strategy

In the course of the rethink exercise, the Government and the OPC together with the consultant undertook comprehensive engagement with various stakeholders, and explored different proposals with a complete open mind, including wholesale outsourcing of Ocean Park to a private operator and sounded out potential investors.

We do not recommend this wholesale outsourcing option. Details have been set out in paragraph 36 of the ED Panel paper of CB(4)387/20-21(01) and extracted below –

While market interests in running Ocean Park 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

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<sup>1</sup> The capital expenditure includes regular capital expenditure of the Park and costs for completing the TSW Project.

<sup>2</sup> The expenses are for settling services rendered and goods received but not paid, as well as for compensating business partners for reduced operations.

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 Ocean Park 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.

For the feasibility of housing development, there is limited flat land in Ocean Park while most of the facilities are located on hilly slopes. It is difficult and subject to constraints for high-density housing developments and effective use of land on the slopes.

As for conservation and education, Ocean Park has accumulated decades of experience and expertise, which should be further expanded. The future strategy therefore focuses on strengthening and making better use of the conservation and education work of Ocean Park. This also reflects wishes of many stakeholders during our consultation. We do not have plans to transfer relevant functions to Government departments.

To enable the OPC to focus on conservation and education and to leverage required expertise, capacity, and financial resources from the private sector, we suggest outsourcing part of the zones/facilities. As the landlord of the Park, the OPC can set the future visions and directions for all development projects in the Park, of which future developers/operators must follow when designing, constructing and operating the zones/facilities, so the new projects would be more consistent with the overall theme of the Park. The OPC will formulate the framework for this new joint operation model and reflect it in the relevant tender contracts. The OPC could also set up a committee which is composed of different developers/operators for coordination in daily operation.

### Retail, Dining, and Entertainment Zone

Regarding the preliminary plan for the retail, dining, and entertainment (“RDE”) zone, the new non-ticketed zone will be tendered out to private developer(s) under a long term concession.

It is initially envisaged that the OPC will carry out and complete the tender exercise between Financial Year (“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(s), it is expected that the new RDE zone will commence operation in FY 2026-27 and the OPC will start receiving the rent/revenue share derived by then. We expect the developer(s) 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. As for the projected revenue and expenditure, the disclosure of such information will affect the tender exercises and the bidding price and we are therefore unable to divulge them.

### Invigorating Island South

The Development Bureau (“DEVB”) will set up the Invigorating Island South Office, together with other relevant bureaux/departments, including the Tourism Commission, to study in detail and formulate the initiatives mentioned in the 2020 Policy Address, and consult the district stakeholders, with a view to promoting the Invigorating Island South initiatives together.

The future strategy will enhance and leverage Ocean Park’s strengths in education and conservation; making use of its natural landscape and strategic seaside location; and exploring new marine tourism routes with Ocean Park as the core to link up with other districts and islands. Together with the opening of the Water World this summer, the Ocean Park will be transformed into a focal point of the district, and become a major resort and leisure destination offering diversified entertainment, leisure and travel experiences, driving the economic development of Hong Kong and the Southern District.

### Water World

As foreshadowed in the 2020 Policy Address, we hope the Water

World, under the OPC's direct management, will commence operation this summer.

The OPC will consider various factors such as overall operation and marketing strategy, operating costs, seasonal demand and market conditions to establish a fee model to ensure competitiveness. From its opening in FY 2021-22 up to FY 2030-31, it is projected to achieve an annual 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 annually. These are rather prudent projections. It is projected that the Water World can basically achieve financial sustainability.

As for project expenses, the latest total project budget will be more than \$4 billion and the final cost will be confirmed after the completion of the project.

The funding of \$5,425.64 million to the OPC approved by the FC last year has already included expenditure covering the costs for completing the project.

The current financial arrangements proposed by the Government for supporting the OPC to implement the future strategy do not involve the construction cost of the Water World.

### Financial Arrangements

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 funding is estimated on the basis of the one-year cost for running Ocean Park (including the Water World), inclusive of both operating and capital expenditures, with breakdown as follows –

	\$ million
(a) Operating expenditure of Ocean Park (excl. the Water World)	1,146
(b) Operating expenditure of the Water World	284
(c) Capital expenditure of Ocean Park (excl. the Water World)	204
(d) Capital expenditure of the Water World	30
<b>Total</b>	<u>1,664</u>

For the two piers to be developed at Deep Water Bay and Tai Shue Wan, it is proposed to be developed under Government's public works projects. Subject to further technical studies, resources will be sought with justifications through established mechanism.

### Staffing

To implement future strategy, the OPC needs a team with experience and capacity in corporate reform. The OPC is reorganizing the management in this direction.

The current staff structure of the OPC can be roughly divided into general staff, supervisor staff, assistant administrative staff, and administrative staff (executive director and above). As some of the facilities will be outsourced in future, the number of staff directly employed by the OPC will also decrease. Nevertheless, taking into account the impact on the employees, the entire transformation process will be carried out gradually in a few years, and the OPC will require its partner(s) to give priority to hire its existing employees.

In the past year, the OPC has been carrying out cost saving measures strenuously. Since the OPC must minimize its expenses when receiving Government funding, and the financial situation of the OPC has become more stringent due to the ongoing Coronavirus Disease 2019 pandemic, the OPC has implemented a series of cost saving measures, such as requiring staff to take no-pay leave and implementing pay cuts.

In terms of the OPC's operating expenditure, with the implementation of the rigorous cost saving measures by the OPC, the staff cost has decreased from \$771.7 million in FY 2018-19 to \$699.6 million in FY 2019-20, with a reduction of \$72 million.

In terms of staff headcount, as of 2020, the number of full-time and part-time staff employed by the OPC (excluding the Water World) has been reduced from 2,933 (1,909 and 1,024 full-time and part-time staff respectively) when the Park first closed due to the epidemic in January last year, to 1,975 (1,762 and 213 full-time and part-time staff respectively) at the end of last year, with employment contracts including long-term employee contracts, short-term employee contracts and part-time employee contracts. The OPC will continue to explore more cost saving measures to step up compressing its cost.

## Conservation and Education

For the proposed \$1.12 billion four-year Government subvention, the OPC must adhere to the “dedicated-fund-for-dedicated-use” principle in the use of funding. The OPC must use the funding on conservation and education uses. We will devise a suitable mechanism to ensure that the subvention would be spent on conservation and education.

In fact, the OPC has been investing a lot of manpower and resources in conservation and education related work. As set out in our supplementary paper (i.e. FC203/19-20(01)) submitted to the FC in May last year, over the past five years (i.e. FY 2013-14 to FY 2018-19), the OPC spent on average about \$280 million each year on conservation and education work which constituted around 20.5% of annual operating costs. Relevant expenditures include staff costs, repairs and maintenance, utilities, animal cost, shows and exhibitions, advertising and promotion, insurance, related office expenses as well as donations and administrative support provided for the Hong Kong Ocean Park Conservation Foundation, etc. However, the OPC was relatively low-key when conducting the work in the past, which was mainly concentrated in schools or classrooms/animal exhibit facilities inside the Park, and so the public may have limited understanding of OPC’s work. Ocean Park will try different models in future, carry out more extensive conservation and education work, and increase public awareness on and participation in conservation matters. We will also consider requesting the Park to set key performance indicators to monitor the effectiveness of their conservation and education work.

Nevertheless, it must be emphasized that conservation and education cannot be measured solely by cost or profit and loss. In addition, Ocean Park currently has about 7,300 animals, including over 500 endangered precious species. The scale and nature of the conservation and education work of Ocean Park is unique in Hong Kong and it is difficult to directly compare it with other institutions.

## Government Loans

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.

As set out in paragraph 35 of the ED Panel paper of CB(4)387/20-21(01), total revenue foregone arising from the currently proposed loan arrangements is projected to be around \$4 billion in 2021 Net

Present Value, including the deferral of principal repayment and waiving of interest, but the exact figure is subject to confirmation upon finalization of the proposed restructuring of the Government loans. To protect public money, under the Government loan restructuring proposal, 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 the OPC.

I would appreciate if you would submit the above reply to Hon Tony Tse and other Panel Members for reference.

Yours sincerely,



( Anson Lai )  
for Commissioner for Tourism