

Legislative Council Panel on Economic Development

**Proposed Way Forward of Ocean Park
Supplementary Information**

PURPOSE

This paper aims to provide supplementary information on the future strategy for Ocean Park (OP) in relation to the business plan, financial projection, and tender exercise, so as to facilitate the Legislative Council (LegCo) Panel on Economic Development (Panel) to resume the discussion on the proposed way forward of OP and to support our submission of the proposed financial arrangements to the Finance Committee (FC) of the LegCo for approval as soon as possible.

2. As set out in the paper we submitted to the Panel (Paper No. CB(4)387/20-21(01)), the funding provided to the Ocean Park Corporation (OPC) for its overall operating cost (including operating and capital expenditures) as approved by the FC in May 2020 (FCR(2020-21)15 refers) will only support its operation **up to end of June 2021** and the first bullet repayment of the two Government loans amounting to about \$3,770 million will fall due in September 2021. If the Panel does not support and if the FC does not approve the proposed financial arrangements in time, the OPC will turn cash negative by the third quarter of 2021 the earliest and would go bust as a result.

3. As the Secretary for Commerce and Economic Development has appealed at the Panel meeting on 25 January 2021, we request the Chairman of the Panel to give permission for arranging an urgent meeting as early as possible. We also hope the Panel Chairman will allow sufficient time to discuss the item.

DISCUSSION OF THE PANEL ON 25 JANUARY 2021 AND FOLLOW-UP PAPER

4. At the meeting of the Panel on 25 January 2021, we had a thorough discussion with the Panel on the proposed way forward of OP for over 90 minutes and responded to the questions and comments of ten Members. Issues discussed at the meeting include –

- (a) Commercial viability of the future strategy, details of the financial arrangements, and relevant financial projections;

- (b) Implementation details of the future strategy, including the implementation timetable, the type/ mix of shops in the retail, dining, and entertainment (RDE) zone and the rental income generated therefrom, duration of the outsourcing arrangement, the impact of outsourcing on the overall branding and positioning of the Park, investment to be made by the private operator/ developer, whether the Park would be renamed, etc.;
- (c) How possible hiccups in the implementation of the future strategy would be handled;
- (d) Governance of the OPC and its cost-saving measures; and
- (e) Opening and operation details of the Water World.

5. Following the discussion at the meeting and as per Members' request, we submitted a follow-up paper (Paper No. CB(4)438/20-21(01)) on the day after the meeting (i.e. 26 January) to set out in detail the implementation timetable of the future strategy for OP, projection of OP's future attendance and OPC's financial situation, as well as how the proposed financial arrangements would help cushion the OPC against uncertainties arising from the Coronavirus Disease 2019 pandemic (**Annex 1** refers). Although the aforementioned paper has largely covered the detailed information which the Panel Chairman has requested the Government to provide this time, we are happy to recap the salient points in this paper as per the Chairman's request.

BUSINESS PLAN AND FINANCIAL PROJECTION

6. Based on the overall directions and initial plan set out in the future strategy as well as a set of prudent assumptions, we have made the relevant financial projections. The projected overall operating cost (including operating and capital expenditures) and operating income of OP and the Water World are set out at **Annex 2**.

7. We have made reference to the relevant past cost figures of OP when projecting the overall operating cost. With the OPC continuously compressing its costs rigorously, it is envisaged that the cost for running OP (excluding the Water World) will be \$1,343.5 million and \$1,434.4 million in Financial Year (FY)¹ 2021-22 and

¹ "Financial Year" mentioned therein refers to the financial year of the Ocean Park Corporation which starts on every 1 July.

FY 2022-23 respectively, which is lower than the average annual cost of \$1,560.1 million (excluding the capital expenditure for developing the Water World) during the five financial years between FY 2014-15 and FY 2018-19. The projection has yet to reflect the possible cost savings which the OPC may derive from the phasing out and demolition of aged facilities when the OPC outsources the development of the wellness-themed zones. Hence, the projection is rather prudent.

8. As for the projection of operating income, we have made reference to the relevant past figures of OP and the forecasts on global tourism recovery made by various institutions. We have also taken into account the positive impact on operating income arising from the increased patronage brought by the opening of the RDE zone as well as the implementation of the pay-as-you-go arrangement. We projected that the revenue of the OPC (excluding the Water World) in FY 2021-22 will drop by more than half as compared with the average annual revenue during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$1,724.7 million). It is envisaged that only by FY 2026-27, as attendance rebounds, number of non-local visitors increases, and with the new ticketing regime as well as new attractions coming on stream, will the revenue exceed the average between FY 2014-15 and FY 2018-19. Hence, it is clear that we have adopted a prudent approach in projecting OPC's future financial performance.

9. For in-park spending per capita, based on the aforementioned prudent approach in making financial projection for the OPC, we envisage that the figure in FY 2021-22 will be lower than the annual average during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$280). We expect it to pick up gradually as the economy recovers and as the pay-as-you-go arrangement commences.

TENDER ISSUES

10. If the proposed financial arrangements are approved by the FC, the OPC will formulate the details for the tender exercise, such as the specific operation requirements and facilities to be provided within the zone, etc. In so doing, the OPC will duly take into account the various views expressed during the discussion of the future strategy. As set out in the paper submitted to the Panel (Paper No. CB(4)387/20-21(01)), we expect the winning bidder to bear all the costs for the planning, design, construction, management, maintenance, marketing and leasing of the relevant facilities/zones and be solely responsible for any possible losses which might arise from their operation. To avoid compromising the tender exercises, we believe LegCo Members would appreciate that it is not appropriate for the Government to disclose commercially sensitive information such as the expected amount of upfront payment as well as rent/revenue share.

11. In rethinking the way forward of OP, we have undertaken a market sounding out exercise and the result revealed that, based on our proposed initial plan, there are market interests in developing the RDE zone, adventure zone, and wellness-themed zones. The investment environment certainly would be affected by some unforeseeable circumstances, such as resurgence of the epidemic situation. The Government will take into account the actual circumstances of the OPC by then as well as all other relevant factors in deciding the way forward.

NEXT STEP

12. As set out in the paper submitted to the Panel (Paper No. CB(4)387/20-21(01)) and as explained again in paragraph 2 of this paper, if the FC does not approve the proposed financial arrangements in time before mid-2021, the OPC will turn cash negative by the third quarter of 2021 the earliest and would go bust as a result. This would imply that that we would lose OP, a park which has served the functions of recreation and education for decades, around 1 800 full-time jobs, an important conservation, education, and tourism infrastructure, as well as the significant contributions it made to the economy and community of Hong Kong. This will also threaten the welfare of some 7 300 animals in OP. At the same time, the opening of the Water World, which is scheduled for completion in the first half of this year, will be deferred indefinitely. In view of the above, we need to confirm the proposed way forward of OP and the financial arrangements the earliest possible such that the OPC can immediately start implementing the future strategy and preparing for the opening of the Water World, including the recruitment and training of more than 400 employees.

13. Based on the above, we consider there is urgency to resume the discussion on the “Proposed Way Forward of Ocean Park” at the Panel as soon as possible such that we can submit the relevant financial proposals to the FC for approval. This is to avoid further deferral which would bring more uncertainties to OP’s restructuring plan and hinder its implementation.

**Tourism Commission
Commerce and Economic Development Bureau
February 2021**

Legislative Council Panel on Economic Development

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

PURPOSE

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

IMPLEMENTATION TIMETABLE

2. If the financial arrangements proposed by the Government are approved by the Finance Committee (FC) of the LegCo, we envisage that the Water World will officially open in summer this year, providing the public with an all-weather leisure destination featuring 27 indoor and outdoor water attractions.

3. For the retail, dining, and entertainment (RDE) zone at the lower park area which will provide a gross floor area of 42 000m², based on preliminary planning, it is envisaged that the OPC will carry out and complete the tender exercise between Financial Year¹ (FY) 2021-22 and FY 2022-23 and receive the relevant upfront payment by FY 2022-23. Subject to the development plan of the private investor, it is expected that the new RDE zone will commence operation in FY 2026-27 and OP will start receiving the rent/revenue share derived by then.

4. The OPC will also undertake the tender exercise for the new adventure zone between FY 2021-22 and FY 2022-23. Same as the RDE zone, this adventure zone is expected to come into operation in FY 2026-27 and OP will start receiving rent/revenue share derived by then.

¹ "Financial Year" mentioned herein refers to the financial year of the OPC which starts on every 1 July. Other term years in this paper refer to the fiscal year of the Government which starts on every 1 April.

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

ATTENDANCE PROJECTION AND FINANCIAL SITUATION

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

7. For local attendance, based on current projection, local attendance of OP (excluding the Water World) will only be 1.9 million in FY 2021-22, which is lower than the average annual local attendance of 2.2 million during the five financial years between FY 2014-15 and FY 2018-19. Even though local attendance is envisaged to reach around 2.6 million in FY 2026-27, it is only comparable with the peak local attendance of 2.6 million recorded in FY 2018-19. It is clear that the projection is on the prudent side and has fully taken into account the impact the unstable development of the epidemic ahead may have on local attendance.

8. Concerning non-local visitors, according to forecasts by the International Air Transport Association, the Economist Intelligence Unit, and the World Tourism Organization, global tourism is projected to recover to the pre-epidemic level only by 2023 or 2024. Our current projection in relation to non-local visitors is even more prudent than these forecasts. We assume that there will be nearly no non-local visitors in FY 2021-22 due to the epidemic. And non-local attendance is projected to be 400 000 and 900 000 only in FY 2022-23 and FY 2023-24 respectively. In the long run, based on the aforementioned prudent approach in making financial projection for OP, it is envisaged that non-local attendance will only be about 1.7 million to 1.8 million which is far lower than the average annual non-local attendance of 3.92 million during the five financial years between FY 2014-15 and FY 2018-19.

9. Apart from being prudent in projecting future attendance, we are also adopting a similar prudent approach in assessing the impact of changing the mode of operation on attendance. Although it is envisaged that the opening of the RDE zone in the lower park area in FY 2026-27 would help boost patronage of the upper park area, based on the aforementioned prudent approach in making financial projection for OP, we project that attendance by then (excluding the Water World) would be about 4.2 million to 4.4 million, which is still lower than the average annual attendance of 6.1 million during the five financial years between FY 2014-15 and FY 2018-19.

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

10. In terms of revenue, based on the above attendance projection, it is projected that the revenue of the OPC (excluding the Water World) in FY 2021-22 will drop by more than half as compared with the average annual revenue during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$1,724.7 million). It is envisaged that only by FY 2026-27, as attendance rebounds, number of non-local visitors increases, and with the new ticketing regime as well as new attractions coming on stream, will the revenue exceed the average between FY 2014-15 and FY 2018-19.

11. For in-park spending per capita, based on the aforementioned prudent approach in making financial projection for OP, we envisage that the figure in FY 2021-22 will be lower than the annual average during the five financial years between FY 2014-15 and FY 2018-19 (i.e. about \$280). We expect it to pick up gradually as the economy recovers and as the pay-as-you-go arrangement commences. As the projected revenue of the OPC will include the expected upfront payment for the RDE zone as well as the rent/ revenue share received for the RDE zone and the adventure zone, disclosing relevant figures might compromise the tender exercises for outsourcing these zones. To avoid affecting the integrity of the tender exercises, the Government is therefore unable to divulge any commercially sensitive details of the projected revenue.

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

13. For the Water World, from its opening in FY 2021-22 up to FY 2030-31, it is projected to achieve a local attendance of around 1 million. Regarding non-local visitors, it is envisaged that the Water World can reach a maximum of about 300 000 which is again a rather prudent projection. It is projected that the Water World can basically achieve financial sustainability.

FINANCIAL ARRANGEMENTS AS CUSHION AGAINST THE IMPACT OF THE EPIDEMIC

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

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

15. As the funding is estimated based on the one-year cost, even if OP has to be closed continuously and the opening of the Water World has to be postponed due to the epidemic, the OPC should still be able to maintain its operation for at least one year up to end of June 2022. Nonetheless, when save and effective COVID-19 vaccines are available with vaccination programmes launched around the world, and as the local epidemic situation is expected to abate gradually, we consider that the chance of continuous closure of the Park should be relatively small. Hence, the proposed non-recurrent funding should be adequate for helping the OPC mitigate the uncertainties brought by the epidemic at least for the coming year.

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

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

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

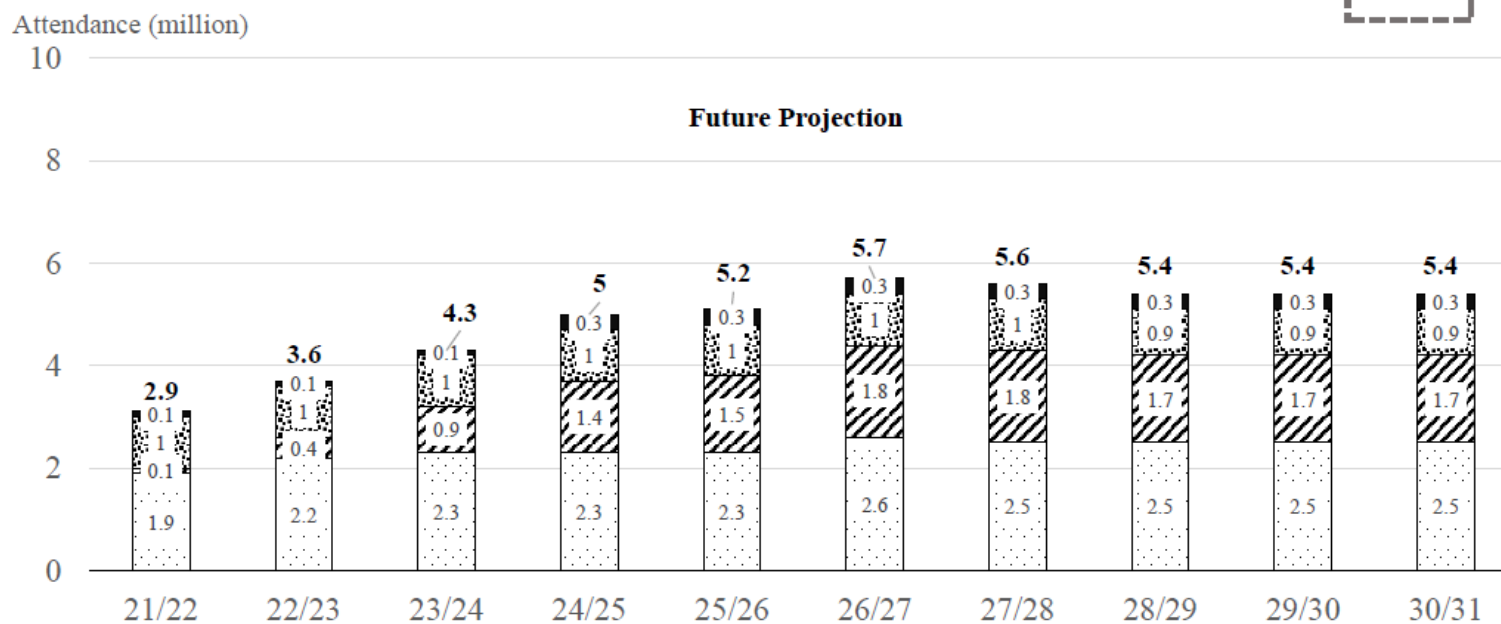
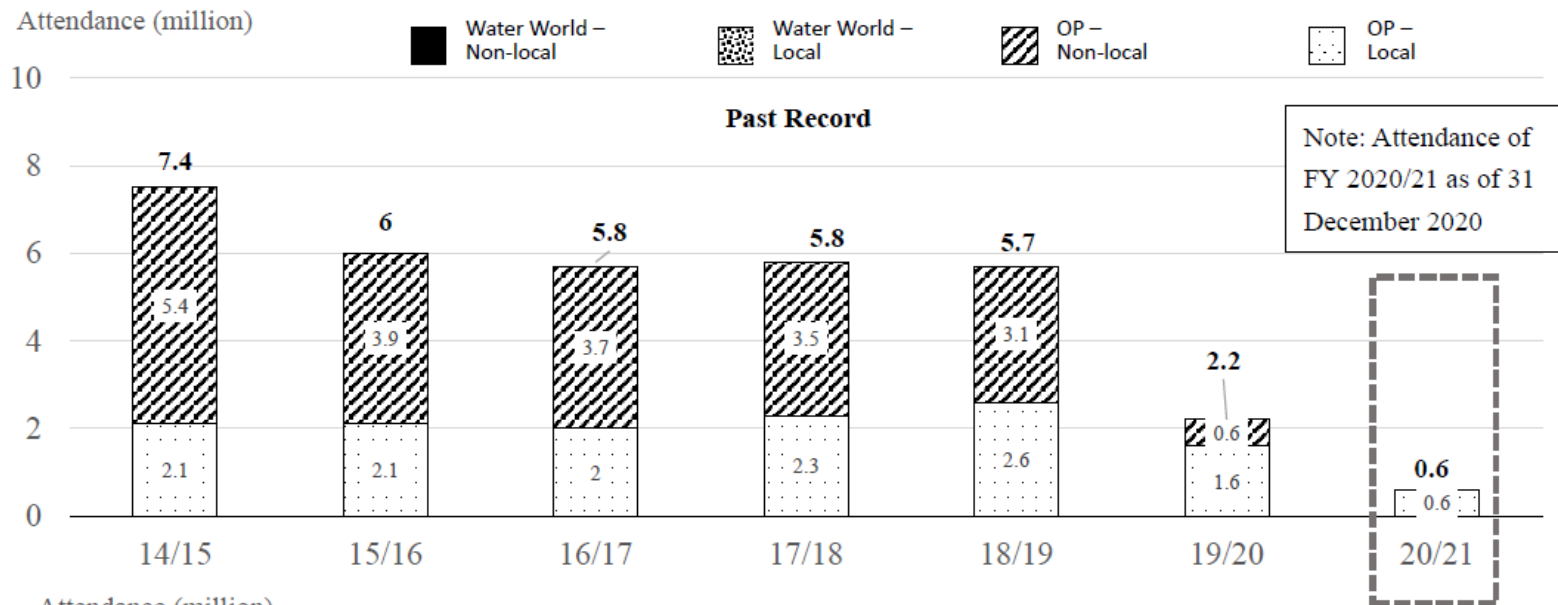
ADVICE SOUGHT

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

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

**Tourism Commission
Commerce and Economic Development Bureau
January 2021**

Ocean Park's Overall Attendance (Including the Water World)



Projection on the Overall Operating Cost and Operating Income of Ocean Park and the Water World

Ocean Park (Excluding the Water World)

Financial Year¹	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Overall Operating Cost² (\$ million)	1,344	1,434	1,501	1,569	1,641	1,686	1,756	1,829	1,909	1,978
Operating Income³ (\$ million)	555	740	1,207	1,507	1,623	1,853	1,865	1,879	1,936	1,996

Water World

Financial Year¹	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Overall Operating Cost² (\$ million)	335	354	374	405	425	443	463	483	504	523
Operating Income³ (\$ million)	345	350	384	494	510	510	510	510	499	512

Remarks

1. "Financial Year" mentioned therein refers to the financial year of the Ocean Park Corporation which starts on every 1 July.
2. Overall operating cost includes both operating and capital expenditures.
3. This only reflects the operating income and has yet to take into account the upfront payment and rent/revenue share received from the outsourced facilities/ zones. To avoid compromising the tender exercises, it is not appropriate for the Government to disclose commercially sensitive information such as the expected amount of upfront payment as well as rent/revenue share.