

## **ITEM FOR FINANCE COMMITTEE**

### **LOAN FUND**

#### **HEAD 274 – TOURISM**

#### **New Subhead “Loan for the Ocean Park’s Tai Shue Wan Development Project”**

Members are invited to approve the creation of a new subhead “Loan for the Ocean Park’s Tai Shue Wan Development Project” under Head 274 Tourism of the Loan Fund for the provision of a \$2,290 million subordinated loan to the Ocean Park Corporation, on a floating interest rate equivalent to the interest rate of the Government’s fiscal reserves placed with the Exchange Fund, to proceed with the Ocean Park’s Tai Shue Wan Development Project.

### **PROBLEM**

The Ocean Park Corporation (OPC), a statutory body incorporated under the Ocean Park Corporation Ordinance (Cap. 388), requires the Government’s financial support in the form of a subordinated loan to implement the Tai Shue Wan Development Project (the Project).

### **PROPOSAL**

2. The Commissioner for Tourism, with the support of the Secretary for Commerce and Economic Development, recommends the approval of the provision by the Government to the OPC of a loan of \$2,290 million under the Loan Fund for a period of 20 years on a floating interest rate equivalent to the interest rate of the Government’s fiscal reserves placed with the Exchange Fund, with a condition that the OPC should seek to re-finance in 2021 upon full repayment of its commercial loans under the Ocean Park Master Redevelopment Plan (MRP) the consolidated outstanding Government loans provided for the Project concerned if approved and the earlier MRP for minimizing as far as possible the Government’s overall financial exposure to the OPC at the time.

**/JUSTIFICATIONS .....**

## JUSTIFICATIONS

### Need for the Development

3. The Ocean Park completed its MRP in July 2012, and the addition of new attractions such as Aqua City, Rainforest, Polar Adventure to name but a few has turned a local theme park into a world-class, must-see marine-based attraction of Hong Kong. The Ocean Park is a valuable asset in our tourism portfolio, and has been widely popular with tourists and Hong Kong residents alike. Its old waterpark, including the thrill of sliding down the Super Slides, remains to be a thread of the fabric of Hong Kong residents' collective memory. Meanwhile, theme parks and entertainment facilities of different natures have been built in our main competitor cities and the Ocean Park needs to keep rejuvenating itself to maintain competitiveness. In 2012, the attendance of the Ocean Park reached another new record of more than 7.4 million. It also needs to expand to provide further capacity and to ensure a pleasant stay for visitors. With these considerations in mind, the Government agrees that the OPC should embark on another phase of development, and that redeveloping the Tai Shue Wan area into a new integrated theme zone with the main focus on an all-weather indoor-cum-outdoor waterpark should be pursued. This will not only add to the variety of Hong Kong's tourism offerings, but also allow our local grown-ups to recall their youthful memories. In addition, a novel and interesting destination will be added for our new generation.

4. In brief, the Project will comprise three key components, i.e. (i) an all-weather indoor-cum-outdoor waterpark; (ii) a retail-dining-cum-entertainment (RDE) zone; and (iii) a parking zone. For the waterpark, there will be an indoor area which will be operational under all weather, an outdoor area which will provide added water facilities during summer, and a resort-style premium zone providing value-added facilities and amenities such as a semi-private pool. The RDE zone will consist of a restaurant cluster serving various styles of dining and some small stalls for retail purpose. The parking zone built underneath the waterpark will provide some 260 parking spaces.

5. The Project will be a "second-gate" attraction with separate entrance and admission fee to the main park. According to the OPC, "water" and "marine animals" will be the overall theme of the waterpark, which is in harmony with the existing theme of the Ocean Park. Under the OPC's latest workplan, it will embark on the demolition and preparation work in late 2013 and the main construction works will commence in early 2015. The Project is scheduled for completion in the second half of 2017. It is estimated that the total attendance of the waterpark, including local visitors, will exceed 1.5 million in its first year of operation. The total project cost is estimated to be \$2,290 million. Details of the breakdown of the estimated project cost is at Enclosure 1.

Encl. 1

6. From the tourism angle, the Project will enrich the overall tourism appeal of Hong Kong by offering product diversity and additional capacity in one of our major tourist attractions, which in turn will enhance the status of Hong Kong as a premier destination for family visitors in the region. According to the economic impact assessment conducted by the OPC's independent consultant based on some broad assumptions, the Project is expected to bring about net additional quantifiable economic benefits to Hong Kong in the region of some \$842 million (in 2018) to \$1,240 million (in 2048) per annum in present value terms. The ongoing operation of the Project will generate some 2 900 (in 2018) to 4 290 (in 2048) new jobs.

7. As from the district angle, it is expected that the Project will enhance the economic activities of the Southern District by attracting a significant number of visitors there. Coupling with the improvement works on the tourist attractions and facilities of Aberdeen which are underway, the Project will help further enhance the overall tourism development of the district concerned.

### **Funding Arrangements**

8. We have examined the OPC's proposed financial arrangements with the help of a financial adviser. Pursuant to the OPC's commercial loan agreement made in 2005 for the Ocean Park's MRP, all assets of the Park have been made collateral of the MRP and cannot be used to back further commercial loans. In view of the restrictions, the OPC will unlikely be able to secure commercial loans in the capital market for taking forward the Project. The Government's financial support will thus be essential.

9. With a view to facilitating the OPC to proceed with the Project as early as practicable, which is in line with our policy objective of promoting the sustainable and healthy development of the tourism industry of Hong Kong and diversifying our tourism offerings, we consider it appropriate to provide financial support to the OPC in the form of a 100% Government loan on a floating interest rate equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund. The loan concerned will be incurred over a three-year period starting from the Financial Year 2013/14.

Encl. 2 10. The terms and conditions of the proposed Government loan for the Project are summarized in Enclosure 2.

*/Re-financing .....*

*Re-financing Condition*

11. We are aware that the provision of the Government loan for the Project will further increase the overall Government's financial exposure to the OPC. As per our financial adviser's recommendation, we will take this opportunity, as a major loan condition, to require the OPC to seek to re-finance all its outstanding Government loans (including the MRP Government loans and the proposed Government loan for the Project) in 2021, upon full repayment of its commercial loans under the MRP, so that the Government's overall financial exposure to the OPC can be minimized as far as possible.

12. By 2021, the OPC will have repaid all its MRP commercial loans, and will no longer be subject to any restrictions on using the assets of the Ocean Park as collateral. The OPC's outstanding loans by then will solely be the Government loans for its MRP and the Project, valued at around \$5,874 million in total (using 5% interest rate, which is the interest rate of the Government's fiscal reserves placed with the Exchange Fund for the year 2013). The OPC will then be able to use the assets of the Park as collateral to back a new commercial loan.

13. Given the re-financing terms and conditions will likely be affected by various factors such as the prevailing economic and capital market situation and the Government's fiscal condition at the time of re-financing, we propose that the Government should reserve absolute discretion to modify the concrete re-financing terms and conditions as proposed by the OPC at the time and to determine whether such re-financing proposal should be accepted.

*Other financing options explored*

14. Apart from the proposed funding arrangements for the Project as detailed in paragraph 9 above, our financial adviser has also explored three other options as follows:

- (a) Option 1: the OPC to raise funds from commercial lenders for 100% of the capital cost of the Project (i.e. \$2,290 million) with Government's full guarantee;
- (b) Option 2: the OPC to re-finance the MRP loan (comprising all commercial loans and Government loan concerned) today and raise a consolidated debt for the MRP and the Project (i.e. \$7,350 million) via a combination of bonds and a new Government loan; and

/(c) .....

- (c) Option 3: the OPC to accelerate the loan repayment for the MRP commercial loans by 100% cash sweep and then re-finance the consolidated outstanding debt for the MRP and TSW projects once the MRP commercial loans have been repaid.

15. For option 1, the indicative terms provided by the commercial lenders only allow a tenure of 10 years. Based on the analysis by our adviser, the Project itself could not generate sufficient surplus through its operation to repay the loan within such a relatively short period. An alternative repayment schedule tested was through a large bullet repayment at maturity together with relatively much smaller annual installments on loan and interest repayment. However, the OPC will not have sufficient capital to settle the large bullet repayment on its own at the tenth year and extra capital will be required by that time. As such, there will be a substantial re-financing risk if the OPC goes for this option, and this option is considered not viable.

16. As for options 2 and 3, both of them will lead to a replacement of the existing cheaper MRP commercial loan made in 2005 with a more expensive loan given the change of the financial climate, and the OPC may have to realize a loss on its hedge on interest rate at present. They are thus considered not worthy of pursuing.

#### *Interest to be charged on the Government loan*

17. The OPC is a statutory non-profit-making body with a mandate to provide a balanced mix of recreation, education and conservation facilities to the public on a self-financing basis. A high interest rate will increase the Ocean Park's cost of operation and may bring about further pressure on raising the admission fees of the Park in the long run. Having considered the above and the need to safeguard the proper use of public money, on balance, we consider it appropriate for the Government to set the interest rate for the proposed Government loan for the Project at a floating interest rate equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund. This arrangement, if approved, will be "cost neutral" to the Government.

#### **FINANCIAL IMPLICATIONS**

18. The Project itself entails a maximum financial exposure of \$2,290 million for the Government in the form of a Government loan subordinated to all existing MRP commercial and Government loans. The Project has no recurrent financial implications for the Government.

19. The forecast drawdown of the proposed Government loan for the Project is as follows –

Financial Year	2013/14	2014/15	2015/16
Drawdown amount	\$229 million	\$1,145 million	\$916 million

20. Given the final project cost may be different from the loan amount so approved due to various factors such as the change in economic conditions, fluctuation of labour cost and cost of construction materials during the construction period, the OPC will be required to exercise due care to control the overall project cost. With a view to containing the Government's financial exposure to the OPC in relation to the Project, the loan amount provided for the OPC to implement the Project will be capped at \$2,290 million. Should the project cost eventually exceed the loan amount so approved, the Government will provide no further funding support to the OPC and the OPC will be required to sort out the matters in an appropriate and satisfactory manner without undermining the proposed scale of and expected level of guest experience offered by the Project as originally proposed.

21. On the contrary, should the final project cost be lower than the loan amount so approved, the OPC is required to scale down the drawdown amounts in the later stage of the drawdown period as appropriate.

## CONSULTATION

22. We consulted the Tourism Strategy Group and the Legislative Council Panel on Economic Development in March 2013. They are both supportive of the Project and the proposed funding arrangements. We also consulted the District Development and Environment Committee of the Southern District Council in April 2013. While members in general are supportive of the Project, they raised concerns over the possible impact on the road traffic in the vicinity. The OPC will look into this with due care and conduct a further Traffic Impact Assessment (TIA) to fine-tune the findings of its preliminary TIA as appropriate.

## BACKGROUND

23. The Ocean Park was officially opened to the public in 1977. Its construction was funded by the Hong Kong Jockey Club (HKJC) while the land was provided by the Government at nominal premium. On 1 July 1987, the Ocean Park ceased to be a subsidiary of the HKJC and became a non-profit-making statutory body, namely the OPC, incorporated under the Ocean Park Corporation Ordinance. One of its major statutory functions is to manage the Ocean Park as a public recreational and educational park.

24. In 2011, the OPC appointed independent consultants to conduct technical feasibility studies and assessments on the impact of the Project on various aspects, including land use planning, environment, engineering, sustainability, traffic and landscape issues, etc. The studies revealed that the Project is technically feasible.

25. The Government then commissioned an independent financial adviser to examine the business and financial aspects of the Project. The adviser considered the OPC's proposal and the estimated project cost reasonable and that the Project itself should be financially viable in general. It is concluded that the Project is worth supporting from the angle of overall tourism development and capacity enhancement for Hong Kong.

26. In 2013/14 Budget, the Financial Secretary proposed that the Government will provide financial support to the OPC in the form of a government loan for taking forward the Project. A key fact sheet of the background of the Project is at Enclosure 3.

Encl. 3

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Tourism Commission  
Commerce and Economic Development Bureau  
May 2013

**Enclosure 1 to FCR(2013-14)11**

Breakdown for the Estimated Project Cost

<b>Item</b>	<b>Cost Estimates (HK\$ million)</b>	<b>Remarks</b>
Capital costs	1,577	These include: demolition (\$15M), site formation (\$64M), landscaping (\$135M), other infrastructure works (\$86M), and facility cost (\$1,277M)
Contingencies	158	These are equivalent to 10% of the estimated capital cost.
Professional fees	260	These include: pre-opening expenses, advertisement and marketing expenses, finance and legal expenses, and consultant's fee
Total: (at 2012 price level)	1,995	
<b>Total:</b> <b>(at 2014 price level)</b>	<b>2,290</b>	



**Proposed terms and conditions  
of the Government Loan for the Tai Shue Wan Development Project**

Amount: \$2,290 million

Lender: Hong Kong SAR Government

Type: Term Loan

Purpose: To finance 100% of the project cost

Ranking: Subordinated to all existing commercial and Government loans pertaining to the Ocean Park's Master Redevelopment Plan (MRP)

Loan Term/Final Maturity:

- Loan Term: 20 years
- Final Maturity: 2033
- For the avoidance of doubt, the Government retains the absolute discretion to accept any adjustments to the above loan term and final maturity provided that such adjustments are supported by full and concrete justifications to be provided by the OPC and to the satisfaction of the Government.

Availability Period:

- The loan could be drawn at any juncture within the first three years after completion of the loan documentation.
- The tentative drawdown schedule is as follows –

<u>Financial Year</u>	<u>Drawdown amount</u>
2013/14	\$229 million
2014/15	\$1,145 million
2015/16	\$916 million

Interest:

- At floating rate which is equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund.
- To be capitalized until all the MRP commercial loan has been repaid in 2021.

Other fees: Nil

- Repayment:
- Repayment to commence after all the MRP commercial loan has been repaid in 2021.
  - The fixed repayment schedule<sup>Note</sup> is as follows (shown as the percentage of the total principal of the Loan) –

<u>Year(s)</u>	<u>% of principal repaid per annum</u>
2021/22 (yr.9)	12.8%
2022/23 (yr.10)	9.0%
2023/24 (yr.11)	7.7%
2024/25 (yr.12)	7.8%
2025/26 (yr.13)	8.3%
2026/27 (yr.14)	5.3%
2027/28 (yr.15)	6.6%
2028/29 (yr.16)	6.9%
2029/30 (yr.17)	8.6%
2030/31 (yr.18)	8.8%
2031/32 (yr.19)	16.6%
2032/33 (yr.20)	1.6%

- For the avoidance of doubt, the Government retains the absolute discretion to accept any adjustments to the above fixed repayment schedule provided that such adjustments are supported by full and concrete justifications to be provided by the OPC and to the satisfaction of the Government.

Pre-payment: Voluntary

Security: Nil

- Documentation:
- The OPC to sign a Loan Agreement with the Government.
  - The Government to sign a Subordination Agreement with the Commercial Loan Lenders for the Ocean Park's MRP.

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<sup>Note</sup> The annual percentage of repayments is generally set within the range of around 7% to 9%. Comparatively, the respective percentages of annual repayment in 2021/22 and 2022/23 (yrs. 9 and 10) and 2031/32 (yr. 19) are higher than the other years due to the availability of cumulated cash from the operation of the Project or completion of repayment of the MRP Government loan as appropriate. The exceptional drop in the percentage of annual repayment in 2026/27 (yr. 14) is mainly due to the periodic increase in capital expenditure of the Ocean Park every 5 years, which results in lower cash support from the Park for the repayment of TSW loan.

**Fact Sheet on Tai Shue Wan Development Project**

<b>Location</b>	<ul style="list-style-type: none"> <li>• At the site used to be the Middle Kingdom</li> <li>• An indicative location plan at <u>Appendix to Annex C</u></li> </ul>
<b>Site area</b>	<ul style="list-style-type: none"> <li>• Around 5.9 hectares</li> </ul>
<b>Estimated project cost</b>	<ul style="list-style-type: none"> <li>• \$2,290 million</li> </ul>
<b>Major components</b>	<p><b>(a) Indoor-cum-outdoor waterpark</b></p> <p>(i) <u>Capacity</u></p> <ul style="list-style-type: none"> <li>- summer peak (May – September) : 7 000</li> <li>- regular season (October – April) : 4 000</li> </ul> <p>(ii) <u>Estimated daily attendance</u></p> <ul style="list-style-type: none"> <li>- approx. 10 500 visitors based on 1.5 turns per day</li> </ul> <p>(iii) <u>Facilities</u></p> <ul style="list-style-type: none"> <li>- wave pool, sand beach, lazy river, extensive water slides, wave rider, children’s play area, a resort-style premium zone, etc.</li> </ul> <p><b>(b) Retail-dining-cum-entertainment zone</b></p> <p>(i) <u>Location</u></p> <ul style="list-style-type: none"> <li>- main entrance of the waterpark</li> </ul> <p>(ii) <u>Food and beverage options</u></p> <ul style="list-style-type: none"> <li>- a restaurant cluster serving causal dining, group dining and upscale alfresco dining</li> </ul> <p>(iii) <u>Retail space</u></p> <ul style="list-style-type: none"> <li>- small stalls, similar to the markets in Stanley Beach</li> </ul> <p><b>(c) A Parking Zone</b></p> <p>(i) <u>Location</u></p> <ul style="list-style-type: none"> <li>- to be built underneath the waterpark</li> </ul> <p>(ii) <u>Capacity</u></p> <ul style="list-style-type: none"> <li>- approx. 250 car parking spaces and 10 coach parking spaces</li> </ul>

**The Indicative Location Plan of the Tai Shue Wan Development Project**

