

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 274 - TOURISM

New Subhead “Loan for the Ocean Park Redevelopment Plans”

Members are invited to approve –

- (a) the creation of a new subhead “Loan for the Ocean Park Redevelopment Plans” under Head 274 Tourism of the Loan Fund for the provision of a \$1,387.5 million subordinated loan to the Ocean Park Corporation, and the guarantee by the Government of a \$1,387.5 million commercial loan of the Ocean Park Corporation and interest of not exceeding \$700 million arising therefrom for the Corporation to proceed with the Redevelopment Plans of the Ocean Park; and
- (b) the deletion of Subhead 111 “Ocean Park Lowland Redevelopment Fund” under Head 274 of the Loan Fund.

PROBLEM

The Ocean Park Corporation (OPC) requires the financial support of the Government in the form of a subordinated loan and a guarantee of a commercial loan and the interest arising therefrom to implement the Redevelopment Plans of Ocean Park (the Plans).

/PROPOSAL

PROPOSAL

2. The Commissioner for Tourism, with the support of the Secretary for Economic Development and Labour, recommends for Members' approval the provision by the Government to OPC of a subordinated loan of \$1,387.5 million under the Loan Fund for a period of 25 years at a fixed interest rate of 5% per annum, and a guarantee of a \$1,387.5 million commercial loan and interest (which is not expected to exceed \$700 million) arising therefrom. Members are also recommended to approve the deletion of Subhead 111 "Ocean Park Lowland Redevelopment Fund" under Head 274 of the Loan Fund.

JUSTIFICATION

Need for Redevelopment

3. There is a need to redevelop the 28 year-old Ocean Park to enhance its statutory function as a public recreational and educational park, and to maintain its attractiveness to visitors. Local residents and overseas visitors have increasing expectation of the quality and the range of attractions of a recreational or entertainment facility. Furthermore, the Park has been facing increasing competition from theme parks and entertainment facilities opened throughout the region in recent years. The opening of Hong Kong Disneyland has also brought new challenges. Without the Redevelopment Plans, Ocean Park cannot sustain a viable business in the long run.

4. The vision of OPC is to turn Ocean Park into a world-class marine themed attraction which will complement Hong Kong Disneyland. According to the Plans, "Ocean" and "Animal Encounter" will continue to be the key themes of the Park. The Government has assessed the technical, planning and lands, transport, environmental and economic aspects of the Plans carefully, and considered that there are no insurmountable problems.

5. Under the Plans, construction works will be carried out in phases with Phase 1 targeted for completion by the end of 2008 and Phase 2 in 2010. The phased redevelopment programme will allow the Park to remain open during the construction period. The Plans are based on an estimation that with the redevelopment, the number of visitors to Ocean Park will increase from 3.4 million in 2007-08 to over 5 million by 2010-11 and over 7 million by 2021-22. The redevelopment cost is estimated to be \$5.55 billion. Details of OPC's projection are at Enclosure 1.

Encl. 1

6. The Plans will enhance the status of Hong Kong as a premier destination for family visitors in the region, and will generate significant economic benefits. According to the Government's assessment based on some broad assumptions, the redevelopment project is expected to bring about net quantifiable economic benefits of around \$23 billion to \$28 billion in present value terms over the first 20 years of its operation, and around \$40 billion to \$48 billion in the first 40 years. On employment creation, the redevelopment project will directly and indirectly generate some 2 600 to 4 000 additional full-time equivalent jobs in the Hong Kong economy upon the opening of Phase I in 2008-09, rising to some 11 300 to 12 800 in 2021-22. The Plans will also act as a catalyst for urban re-generation of the Southern District and the development of the Aberdeen area as a tourism node.

Funding Arrangement

7. OPC estimates the cost of the Plans to be \$5.55 billion to be incurred over a six-year period starting from 2006. As at June 2004, "The Ocean Park Trust Fund" has an accumulated fund balance of \$288 million, and OPC has operating cash reserve of \$325 million. For the financial year of 2003-04, OPC's operating cost was \$338 million. The cash currently held by OPC is not adequate to cover the \$5.55 billion redevelopment cost. Besides, OPC would need to maintain adequate cash for normal operation and for unexpected contingencies as the park would remain open during redevelopment. OPC would also need to keep sufficient cash in hand to serve as interest payment of the commercial loan before completion of the Plans.

8. OPC has proposed to fund the \$5.55 billion redevelopment project by way of loans from the Government and the financial market. It anticipates that there should be sufficient cash from operating income to repay all the loans and based on the current projection and interest rate environment, the earliest full repayment date could be 2020-21. The projected annual attendance and revenue after the completion of Phase 1 in 2008-09 are 4.2 million and \$1.3 billion respectively, and for Phase 2 in 2010-11, 5.05 million and \$2.1 billion respectively.

9. The Government, with the help of a financial adviser, has examined the financial aspect of the Plans. The financial adviser has reviewed the estimated \$5.55 billion project cost with input from an engineering consultant, and concluded that it is reasonable. There does not appear to be any major omission or underestimation on the estimate. The financial adviser has also critically examined the patronage and revenue projections by OPC. Having conducted sensitivity analysis and evaluated different scenarios of patronage, revenue,

/interest

interest rate, etc., the financial adviser anticipated that divergence from the projections could result in deferral in repayment of the borrowings, but this would not affect the ability of OPC to repay the borrowings. In conclusion, the financial adviser considered the Plans to be financially viable and the underlying assumptions reasonable and acceptable.

10. As regards the financing arrangement, the financial adviser's view was that OPC would unlikely be able to secure sufficient commercial loans for the Plans without support in one form or another from the Government for at least 50% of the borrowing required. Such support can come in the form of a subordinated loan, a guarantee of the commercial loans, or a mix of both. The financial adviser has explored four options for the funding arrangement which are set out below –

- Option 1: Maximum Government Participation – a Government Loan of \$5,550 million
- Option 2: Complete Risk Acceptance – Government Subordinated Loan of \$2,775 million and Government guarantee for commercial loan of \$2,775 million
- Option 3: Partial Risk Acceptance – Government Subordinated Loan and guarantee totaling \$2,775 million
- Option 4: Minimum Government Participation – Government guarantee totaling \$2,775 million

11. Options 1 and 2 would subject the Government to a 100% risk exposure on the total borrowing of OPC and are considered inappropriate, as the assessment of the financial adviser is that the commercial market is prepared to fund up to 50% of the total project cost. Funding from the commercial market will also provide an additional layer of due diligence on the redevelopment plan. For Options 3 and 4, the difference in cost will mainly depend on the terms of the subordinated Government loan, which will be subject to further negotiation between OPC and the Government.

12. In the light of the assessment by the financial adviser, the Government proposes to support OPC for half of the total project cost (i.e. Option 3, \$2,775 million), of which 50% or \$1,387.5 million would be in the form of a subordinated loan under the Loan Fund and the other 50% or \$1,387.5 million in the form of a guarantee of a commercial loan to be taken out by OPC. OPC will procure another commercial loan of \$2,775 million with no recourse to the Government to cover the other half of the project cost. In other words, 75% of the project cost will be covered by commercial loans.

13. We have ensured that the financial market is given ample opportunities to participate in the financing of the Plans. To ensure that OPC would be able to borrow from the financial market on reasonably advantageous terms, we consider it necessary for the Government to guarantee the repayment of one third of the commercial loan (i.e. \$1,387.5 million representing 25% of the total project cost) and the interest arising therefrom (which is not expected to exceed \$700 million). At the same time, we would provide a subordinated loan to OPC to cover the rest of the project cost. Through the subordinated loan and the guarantee, we share the loan risk exposure 50/50 with the commercial market.

14. 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 would increase Ocean Park's cost of operation. We therefore consider it appropriate for the Government to set the interest rate for the subordinated loan at a fixed rate of 5% to enable OPC to have stable cash flow. This is also in line with the arrangement for the \$500 million loan commitment approved by the Finance Committee in 1999 for a loan to OPC for the Lowland Redevelopment, which was subsequently put aside pending the preparation of a comprehensive redevelopment for the whole park.

15. As regards the commercial loans, commercial banks have shown keen interest in providing the required funding after prudent assessment of the financial aspects of the Redevelopment Plans and the financial position of OPC. They have submitted initial offers to the OPC on the assumption that there will be some government support in a mix of a subordinated loan and a guarantee of a commercial loan. The OPC is now considering the submissions. Subject to this committee's approval for the proposed funding arrangement, OPC will further negotiate with the banks and finalise the arrangements for the commercial loan.

Encl. 2 & 3 16. The terms and conditions of the subordinated loan and the government guarantee are summarized in Enclosures 2 and 3 respectively. These have been drawn up to tie in with the anticipated terms and conditions of the Commercial Loan of OPC.

FINANCIAL IMPLICATIONS

17. The proposal entails a risk exposure of up to \$3,475 million for the Government in the form of a subordinated loan and a guarantee of a commercial loan. The proposal has no recurrent financial implications for the Government.

/18.

18. The forecast drawdown of the subordinated loan is as follows –

Year	2005-06	2006-07	2007-08
Amount (\$ million)	200	847	341

19. On 21 May 1999, the Committee approved a commitment of \$500 million under the Loan Fund to provide a loan to OPC for its Lowland Redevelopment Project. However, the project was put aside subsequently pending the preparation of a comprehensive redevelopment for the whole park. As of now, OPC has not drawn down any part of this approved loan. As the Lowland Redevelopment Project is now superseded by the Plans, the previous commitment for the \$500 million loan created under Subhead “Ocean Park Lowland Redevelopment Fund” will be deleted.

20. Apart from the construction works within Ocean Park, the Government would need to carry out public works for sewerage upgrading to tie in with the Plans. Subject to further feasibility studies and depending on the final construction option, the total cost of such works is estimated to be some \$25 million to \$38 million and the estimated annual recurrent cost is some \$0.2 million. We will follow the established procedures to seek capital funding for the sewerage upgrading works. To tie in with the implementation programme of the Plans, we intend to seek the funding approval of this Committee in mid 2006.

CONSULTATION

21. We have consulted the Tourism Strategy Group, the Southern District Council and the Legislative Council Panel on Economic Services (ES Panel) on the Redevelopment Plans on 17 June 2005, 23 June 2005 and 27 June 2005 respectively, and they are supportive of the Plans. We consulted the ES Panel separately on the proposed funding arrangement for the Plans on 28 November 2005. The Panel supported the proposed funding arrangement. Some Members raised concerns about the traffic situation of the Southern District in view of the estimated increase in patronage after the redevelopment of the Ocean Park. They urged the Government to proceed with building the South Island Line (SIL) as soon as possible.

/22.

22. The Traffic Impact Assessment conducted by OPC shows that the redevelopment will not create unacceptable adverse traffic impacts by 2011 when the second phase of redevelopment will be completed. While their assessment shows that there will be no significant impact to the local network until well after 2016, the situation with respect to the major road link, Aberdeen Tunnel, is expected to be less favourable without the South Island Line (East)¹(SIL(E)). For the departing traffic through Aberdeen Tunnel during the evening peak of Ocean Park, it is expected to be tolerable in 2011, but may lead to very slow trips by 2016. OPC's assessment is that the departing traffic through Aberdeen Tunnel will be at its peak capacity for much of the day by 2022.

23. Transport Department's assessment of the Plans is that there is no need to set the availability of the SIL(E) as a condition for allowing the Plans to proceed. According to the Department's assessment, the traffic capacity of the adjacent road network and major road links will not be significantly affected by the Plans up to 2011 despite the estimated increase in visitor number using the Park. By 2016, without the SIL(E), northbound traffic through Aberdeen Tunnel will experience some traffic congestion and queuing during the evening peak hours, as caused mainly by the forecast general traffic increase but not by the increase in the visitor number to Ocean Park. By 2022, without the SIL(E), the road network would be overloaded. It is noted that the redeveloped Ocean Park will offer night-time activities and its closing time will be much later than the current closing time of 6 p.m. so that some Ocean Park visitors will leave the park after the general traffic rush hours.

24. As regards the SIL project itself, MTRCL submitted a revised proposal on the SIL to the Government in February 2005. The Environment, Transport and Works Bureau is examining the economic and transport performance of the proposed rail, the financial implications, the impact of the new rail on road-based public transport modes, the changing community needs and changes in the relevant planning parameters. It will review the way forward for the SIL taking all these and the Plans into account, as well as the results of the review on the planning of tourism and commercial development in the Southern District due to be completed by Planning Department by the end of 2005. The plan is to make a decision on the way forward for the SIL in the first quarter of 2006.

/BACKGROUND

¹ The planned SIL(E) runs from Admiralty to South Horizons with three intermediate stations at Ocean Park, Wong Chuk Hang and Lei Tung.

BACKGROUND

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

26. In May 2002, the Government set up an interdepartmental "Task Force on Redevelopment of Ocean Park and Tourist Attractions in Aberdeen" (the Task Force) chaired by the Financial Secretary to oversee the planning for the future of the Park and the subsequent development of the Aberdeen tourism project. The Task Force set up a development group, led by the Chairman of the OPC Board, to take forward the preparation of a detailed proposal relating to the future development and operation of Ocean Park. In February 2005, the development group submitted the Plans to the Task Force for consideration.

27. The Executive Council endorsed the Redevelopment Plans for Ocean Park in October 2005 and noted the proposed funding arrangement for the Plans.

Tourism Commission
Economic Development and Labour Bureau
December 2005

Ocean Park's Redevelopment Plans

I. Projected Attendance

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2021-22
Total Attendance (million)	3.4	4.2	4.6	5.0	5.5	5.8	6.1	7.0

II. Breakdown for \$5.55 billion Project Cost

Item	Cost Estimates (\$ Million)	Remarks
Capital cost	4,525	These include: demolition (\$80M), site formation (\$328M), access roads (\$132M), infrastructure (\$304M), facilities at the Summit (\$1,750M), facilities at the Waterfront (\$1,237M), funicular system and cable car upgrade (\$464M), and area development (\$230M).
Contingencies (10% of the capital cost)	453	
Animals	160	Includes relocation of animals, temporary facilities and new animals
Design and project management	362	
Interim phasing cost	50	Enabling works and interim facilities to keep the park open during redevelopment
Total:	5,550	

SUBORDINATED LOAN

Amount:	\$1,387.5 Million
Lender:	HKSAR Government
Type:	Term Loan
Purpose:	To finance 25% of the Project Costs
Ranking:	Subordinated
Loan Term/Final Maturity:	25 years
Availability Period:	<ul style="list-style-type: none">- May be drawn at any time within 3 years after completion of loan documentation- To be drawn and used by OPC before the Commercial Loan
Interest:	<ul style="list-style-type: none">- At fixed interest rate of 5% per annum.- To be capitalised at half-yearly interval until the Commercial Loan is fully repaid. Thereafter, payable semi-annually.- Subject to agreement with lending banks, the intended Commercial Loan will be fully repaid after 15 years.
Other fees:	Nil
Repayment:	<ul style="list-style-type: none">- Repayment to commence 3 months after full repayment of Commercial Loan- OPC should always "prepay" the Commercial Loans as far as possible (i.e. when there is idle cash after all the expenses are met)- The total principal of the Loan, together with capitalised interest, to be repaid by equal semi-annual instalments until Final Maturity
Prepayment:	No prepayment until after full repayment of the Commercial Loan. Thereafter voluntary.
Security:	Nil
Documentation:	<ul style="list-style-type: none">- OPC to sign a Loan Agreement with Government- Government to sign a Subordination Agreement with the Commercial Loan Lenders.

HKSAR GOVERNMENT GUARANTEE

(for the Commercial Loan)

- Amount: Covering up to principal amount of \$1,387.5 Million of the commercial loan, plus interest accrued thereon
- Guarantor: HKSAR Government
- Terms of the Commercial Loan to be guaranteed:
- Major terms will be set out in Terms and Conditions of the Commercial Loan to be settled with relevant banks
 - Loan Term will be 15 years
 - The Government Guaranteed Commercial Loan (Tranche A) will be drawn down by OPC after the Subordinated Loan has been drawn, but before drawing of the remaining part of the Commercial Loan (Tranche B)
 - The Tranche B Commercial Loan (which is not guaranteed by Government) will be repaid/prepaid first before the Tranche A Commercial Loan.
- Guarantee Fee: Nil
- Documentation: A Guarantee in form and substance acceptable to both the Government and the banks
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