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Panel on Economic Development
Meeting on 20 January 2020

Background brief on the developments of Ocean Park

Purpose

This paper provides background information on the developments of the Ocean Park ("OP"), and summarizes the major views and concerns expressed by Members on relevant matters in previous discussions.

Background

2. OP 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, OP ceased to be a subsidiary of HKJC and became a non-profit-making body, namely the Ocean Park Corporation ("OPC"). OPC is a statutory body incorporated under the Ocean Park Corporation Ordinance (Cap. 388). One of its major statutory functions is to manage OP as a public recreational and educational park.

Major developments of OP

The Redevelopment Plans of OP

3. On 27 June 2005 and 28 November 2005, the Panel on Economic Development ("the Panel") (formerly known as the Panel on Economic Services) was briefed on the Redevelopment Plans of OP ("the Plans") and its financial arrangements. Under the Plans, OP would be redeveloped into a world-class marine themed attraction, featuring more than 70 attractions to be delivered by phases from 2007 to 2013. The total cost of the Plans was estimated at \$5.55 billion.

4. On 16 December 2005, the Finance Committee ("FC") approved the provision by the Government to OPC for half of the project cost in the form of a subordinated loan of \$1,387.5 million under the Loan Fund, and a guarantee of a \$1,387.5 million commercial loan and interest arising therefrom. The other half of the project cost was covered by OPC's commercial loan. The terms and conditions of the subordinated loan and the government guarantee are summarized in **Appendices I and II** respectively.

5. The Plans were completed in July 2012. The subordinated loan was fully drawn by 2007-2008. OPC obtained a commercial loan to refinance all its outstanding commercial loans for the Plans on 31 March 2016 and relieved Government's obligations as the guarantor for OPC's commercial loan on the same day.

Hotel development at OP

6. The Panel was briefed on 17 March 2008 on the proposal to develop three hotels in OP to enhance OP's tourism appeal, diversify guests' experience, and lengthen their stay in OP and Hong Kong.

7. Regarding the mode of development of the hotels, the Panel noted that the project would be taken forward through an open tender, under which developers will be invited to design, build and operate the hotels. After the tendering procedures, OPC would enter into a sub-lease with the selected developer(s). The premium for lease modification will be charged at market value in accordance with the prevailing policy. While OPC expected the three hotels to commence operation from 2011-2012 onwards to tie in with the phased completion of the Plans, the first on-site hotel at OP commenced operation in October 2018.

The Tai Shue Wan Development of OP

8. On 25 March 2013, the Panel discussed the OP's proposal to redevelop the Tai Shue Wan area into a new integrated theme zone with the main focus on an all-weather indoor-cum-outdoor waterpark ("the Project"). The Project was scheduled for completion in the second half of 2017. The total cost of the Project was estimated to be \$2,290 million.

9. On 24 May 2013, FC approved a commitment of \$2,290 million to provide a subordinated loan to OPC for a period of 20 years at a floating interest rate, which was equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund, for OPC to proceed with the Project. The loan was granted with a major condition that OPC should seek to re-finance all its outstanding Government loans (including the Government loans for the Plans and the Project) in 2021, upon full repayment of its

commercial loans under the Plans, so that the Government's overall financial exposure to OPC could be minimized as far as possible.¹ The terms and conditions of the subordinated loan are summarized in **Appendix III**.

10. As advised by the Administration in November 2015, following the approval of FC for providing the Government loan for the Project, OPC appointed an architectural consultant to undertake detailed design for the Project. During the detailed design stage, the consultant refined and enhanced the preliminary conceptual design of the waterpark in response to the local views. The total project cost with the enhanced detailed design was estimated to be around \$2,900 million. In view of the latest project estimate, OPC was required to sort out the matters on its own. On top of the loan provided by the Government, OPC had made an arrangement of \$650 million to fund the new requirement of project budget. OPC had also obtained an offer from a commercial bank for a commercial term loan of \$2,750 million to re-finance all its outstanding commercial loans for the Plans. The completion date of the Project was further adjusted.

Development of education tourism projects

11. To enhance OP's competitiveness and attract more family segment visitors, the Financial Secretary announced in the 2018-2019 Budget that a total of \$310 million would be allocated in the next few years to support OP in developing education tourism projects and staging a new 3D projection-cum-water light show with local elements. These two items were time-limited measures to be implemented in five years from 2018-2019 to 2022-2023.

Concerns expressed by Members in previous discussions

12. Members in general saw the need for redeveloping OP to enhance its statutory function as a public recreational and educational park, and were generally supportive of the development proposals in consideration of the economic benefits for OP and Hong Kong in terms of enhancing the park's appeal to visitors, increasing tourist spending, and creation of new jobs for local people. Some Members, however, expressed concerns about the negative traffic and environmental impacts on the vicinity. They urged the Administration to expeditiously proceed with the implementation of the South Island Line. Noting that the developments of OP would be mainly financed

¹ The Administration advised in May 2013 that by 2021, OPC would have repaid all its commercial loans under the Plans, and would no longer be subject to any restrictions on using the assets of OP as collateral. OPC's outstanding loans by then would solely be the Government loans for the Plans and the Project, valued at around \$5,874 million in total (using 5% interest rate, which was the interest rate of the Government's fiscal reserves placed with the Exchange Fund for the year 2013). OPC would then be able to use the assets of OP as collateral to back a new commercial loan.

by loans, some Members were concerned about OPC's repayment capability and the financial outlay of OP if the patronage and revenue fell below the estimates.

Council question

13. At the Council meeting of 20 November 2019, Hon Holden CHOW raised a question covering the monthly attendances and the special promotion plans of Ocean Park. Hyperlink to the relevant written reply from the Administration is provided in **Appendix IV**.

Latest development

14. At the Panel meeting on 20 January 2020, the Administration will brief the Panel on OP's Strategic Repositioning Plan.

Relevant papers

15. A list of the relevant papers available on the Legislative Council Website (<http://www.legco.gov.hk>) is in **Appendix IV**.

Council Business Division 4
Legislative Council Secretariat
16 January 2020

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: | <ul style="list-style-type: none">- 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 <u>after</u> the Subordinated Loan has been drawn, but <u>before</u> 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 <u>before</u> the Tranche A Commercial Loan. |
| Guarantee Fee: | Nil |
| Documentation: | A Guarantee in form and substance acceptable to both the Government and the banks |

Source: Enclosure 3 to FCR(2005-06)35

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^{Note} 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.

^{Note} 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.

List of relevant papers

| Issued by | Meeting Date/ Issue Date | Paper |
|---|--------------------------------------|--|
| Panel on Economic Development (Formerly known as the Panel on Economic Services) | 27 June 2005 (Item VI) | Administration's paper Minutes |
| | 28 November 2005 (Item IV) | Administration's paper Legislative Council Brief Minutes |
| | 18 July 2007 (Item VIII) | Administration's paper Minutes |
| | 17 March 2008 (Item IV) | Administration's paper Minutes |
| | 23 July 2009 (Item I) | Administration's paper Minutes |
| | 25 March 2013 (Item V) | Administration's paper Administration's follow-up paper Background brief Minutes |
| | 15 December 2015 | Administration's paper |
| Finance Committee | 16 December 2005 (FCR(2005-06)35) | Administration's paper Administration's follow-up paper Minutes |
| | 24 May 2013 (FCR(2013-14)11) | Administration's paper Minutes |
| Council Meeting | 20 November 2019 | Council question on "Impacts of social disturbances on the economy and people's livelihood" raised by Hon Holden CHOW |