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OCEAN PARK: IN THE FACE OF COMPETITION FROM HONG KONG DISNEYLAND

In April 2006, Ocean Park, Hong Kong's only home-grown theme park, launched a syndicated loan to raise HK\$4.1 billion for a master plan to revamp the Park.¹ The master plan represented the Park's strategic response to the arrival of Hong Kong Disneyland, which had opened the previous year. Ocean Park had expected attendance to drop significantly with Disney's opening, but attendance at the Park had remained strong. Nonetheless, the competition posed by Disney was not to be underestimated. How would the commercial banks assess Ocean Park's strategic plan? Would they buy the Park's strategy in light of the competition posed by Disney?

The Tourism Industry in Hong Kong

Tourism was a major pillar of the Hong Kong economy. In 2004, the territory recorded 21.8 million visitors who spent HK\$91.85 billion,² which was 2.9% of its GDP.³ China formed the key source market for tourists to Hong Kong, with 56.2% of its inbound visitors coming from China [see **Exhibit 1**].⁴ Hong Kong had been a favourite destination for mainland Chinese since the early 1980s but it had found itself competing increasingly with other Asian destinations in the 1990s as the Chinese government liberalised travel policies towards other countries such as Thailand, Malaysia and Singapore.⁵

The Asian financial crisis hit Hong Kong badly in 1997 and raised concerns about the structure of its economy, which relied heavily on the finance and real estate sectors.⁶ The

¹ US\$1=HK\$7.80.

² Hong Kong Tourism Board (2005) *A Statistical Review of Hong Kong Tourism 2004*.

³ Hong Kong Census and Statistics Department, *Hong Kong Statistics*, http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index.jsp?subjectID=12&tableID=189 (accessed 19 August 2006).

⁴ Hong Kong Census and Statistics Department (2006) *Hong Kong in Figures*.

⁵ Zhang, H.Q. and Heung, V.C.S. (2001) "The Emergence of the Mainland Chinese Outbound Travel Market and its Implications", *Journal of Vacation Marketing*, 8 (1): 7–12.

⁶ Official Record of Proceedings of the Hong Kong Legislative Council, <http://www.legco.gov.hk/yr98-99/english/eounmtg/hansard/981111fe.htm> (accessed 11 November 1998).

Grace Loo prepared this case under the supervision of Dr Bennett Yim for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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crisis highlighted the need for Hong Kong to diversify its economic base, and the government began to call for the development of industries based on knowledge and driven by innovation while continuing to strengthen the service industries which were key contributors to the territory's economy, such as finance, logistics and tourism. Hong Kong was run as a *laissez-faire* economy under British colonial rule, and the Hong Kong government continued using this system after the territory reverted to Chinese rule in 1997. But the government took a more active role when market forces alone appeared to be insufficient to drive the territory's structural transformation.⁷

Hong Kong was frequently seen as a business city and associated with deal-making, dining and shopping.⁸ Tourist activities in Hong Kong were biased strongly towards shopping, with tourists spending half of their expenses on shopping as compared with only 3% on sightseeing. Unlike some countries such as China, Hong Kong had few natural scenic endowments and therefore had to develop its own attractions. In 2001, the government announced the development of five tourism clusters to increase the attractiveness of Hong Kong to tourists, the redevelopment of Ocean Park being one of them [see **Exhibit 2**].⁹ These projects, together with the construction of a Disney theme park, formed part of the government's plan to turn Hong Kong from a mere business destination into a family destination.

Ocean Park

Background

Ocean Park, located at Aberdeen on the south side of Hong Kong island, was opened in 1977. It was Hong Kong's only home-grown theme park. It was also the largest marine-based theme park in Asia and the only Asian park to be accredited by the American Zoo and Aquarium Association. The Park's construction was funded by the Hong Kong Jockey Club and was built on land provided by the government at a nominal premium. In July 1987, the Park was severed from the Hong Kong Jockey Club to become a statutory body incorporated under the Ocean Park Corporate Ordinance. The mandate of the Ocean Park Corporate was to manage Ocean Park as a public and recreational park and to provide facilities for educational, recreational and conservation activities to the public on a self financing basis.

Ocean Park had enjoyed a surplus in income since it opened until 1997,¹⁰ when the Asian financial crisis hit Hong Kong. The crisis began a spell of losses for the Park that lasted four consecutive years [see **Exhibit 3**]. Through creative special events, aggressive marketing and heavy promotions on the mainland, the Park returned to profitability with a HK\$15.3 million profit in 2001–2002, and a 23% increase in attendance, reaching 3.4 million.¹¹ But in 2003, the Park was dealt another blow with the outbreak of the Severe Acute Respiratory Syndrome (SARS). As tourists shunned Hong Kong and Hong Kongers stayed home as much as they could, attendance at the Park fell by about 70%, with only a few hundred visitors each day instead of the usual thousands.¹² Consecutive years of loss, coupled with the heavy blow of SARS, threatened Hong Kong's only home-grown theme park with the possibility of closure.

⁷ Leung, T.K. (2005) "A Review and Outlook of Hong Kong Industry's Restructuring", <http://www.tdctrade.com/econforum/boc/boc050302.htm> (accessed 29 October 2006).

⁸ Gluckman, R. "Mickey Mouse Meets Mao", <http://www.gluckman.com/HKDisney.htm> (accessed 25 July 2006).

⁹ Hong Kong Government (May 2006) *Tourism in Hong Kong*, <http://www.info.gov.hk/info/hkin/tourism.pdf> (accessed 29 October 2006).

¹⁰ Anonymous, "Ocean Park", Hong Kong Chamber of Commerce, Member's Profile, Ocean Park, http://www.chamber.org.hk/info/member_a_week/member_profile.asp?id=36&P=3&KW=&search_p (accessed 24 March 2003).

¹¹ Ocean Park (2002) "Annual Report".

¹² Ocean Park Corporation (2003) "Annual Report".

In response to the economy spiralling downwards from the impact of SARS, the Chinese government launched the Individual Visit Scheme (IVS), lifting restrictions on the travel of mainlanders to Hong Kong. The scheme allowed mainlanders from designated cities to travel to Hong Kong in an individual capacity rather than only on a business visa or in a group tour as before. The scheme brought a flux of mainlanders to Hong Kong, and Ocean Park, long a Hong Kong icon in China, rebounded quickly, returning to profitability in 2003–2004 [see **Exhibit 4**].

Allan Zeman

In 2002, a government-led task force began charting long-term plans for Ocean Park. One year later. The government also reshuffled the Park's board of directors and appointed new members to replace half of the board. Hong Kong's chief executive Tung Chee-hwa also appointed Allan Zeman, a Canadian entrepreneur who had made Hong Kong his home, chairman of the board. Somewhat a maverick in business, Zeman had been compared to Richard Branson of the Virgin Group.¹³ Zeman had moved to Hong Kong in 1970, had started his own business exporting garments to Canada the same year, and made his first million by the time he was 20.¹⁴ His company, the Colby International Group, was one of the first supply chain management companies to source garments from China. Colby grew rapidly in the early 1990s and expanded to 36 offices worldwide over the next ten years. In 2001, Zeman sold the company to Li & Fung Limited, a public company listed on the Hong Kong Stock Exchange in the territory, for HK\$2.2 billion.¹⁵

Within Hong Kong, Zeman was more widely known for his role in developing the territory's prime nightlife district, Lan Kwai Fong [see **Exhibit 5**]. When Zeman came across Lan Kwai Fong, a rundown street on the periphery of Hong Kong's central business district in the early 1980s, he envisioned it as a place for expatriates to gather. He opened a restaurant there, the first of more than a dozen themed food and beverages outlets he owned in the neighbourhood, and eventually transformed Lan Kwai Fong into a bustling centre of activity. "To sustain your products, you need to create excitement and make customers buy it", Zeman said with regard to his success with Lan Kwai Fong. "I have created different products in Lan Kwai Fong that draw different people 24 hours a day, from breakfast, brunch, lunch, happy hours, dinner and after dinner."¹⁶

A few years after he opened his first restaurant in Lan Kwai Fong, he bought an office building on the same street and boosted the value of the building by renting the office space to retailers and restaurateurs. The venture launched Zeman into the property business and he eventually bought about 65% of the properties in the neighbourhood.¹⁷

Thomas Mehrmann

When Zeman became chairman of Ocean Park, he hired Thomas Mehrmann to replace Randolph Guthrie as the Park's CEO. Guthrie had retired after serving for 4½ years at the Park. Mehrmann was a theme park industry veteran and had almost 30 years of experience behind him. He had held executive positions at Knott's Berry Farm, which was located only seven miles from Disneyland, and at Six Flags Marine World in California. Prior to joining Ocean Park, he was involved in building Warner Bros. Movie World in Madrid. When Mehrmann first visited the Park, he immediately saw various opportunities (he described as "low hanging fruits") for the Park's performance to be improved. However, he also realised

¹³ Crawford, Barclay (31 July 2006) "Mr. Enthusiasm", *South China Morning Post*.

¹⁴ Jung, S. (13 April 2002) "Action Central", *South China Morning Post*.

¹⁵ *Hong Kong Trader* (1 February 2004) "'Mr. Lan Kwai Fong' Has the Golden Touch".

¹⁶ Hong Kong Institute of Marketing (11 December 2004) "Lan Kwai Fong—Over Two Decades of Success", http://www.hkim.org.hk/event_20041211.html (accessed 29 October 2006).

¹⁷ Jung, S. (13 April 2002) "Action Central", *South China Morning Post*.

that the Park needed a major enhancement in order to compete shoulder-to-shoulder with its new and formidable rival, Hong Kong Disneyland.

Competition

Walt Disney Company

The Walt Disney Company, founded in 1923, was one of the largest media and entertainment companies in the world, with revenues of HK\$248.82 billion in 2005. The company's business was divided into five business segments: media networks, studio entertainment, theme park and resorts, consumer products, and internet and direct marketing. Among Disney's activities, the theme park and resort segment, with annual revenues growing 10% to HK\$70.2 billion in 2005, was a strong growth driver.¹⁸ Disney operated seven out of the top 10 theme parks in the world¹⁹ and its parks were widely considered as the benchmark in the theme park industry.

International expansion was one of Disney's strategic platform, and it had already opened two other international theme parks, one in Tokyo in 1983 and one in Paris in 1992, when it decided to open a third international theme park. Investors in the theme park industry had increasingly turned their eyes to Asia since North America, the long-time market leader in the industry that made up half the global market,²⁰ showed signs of maturation in the 1980s.²¹ Analysts forecasted industry growth for Asia at 5.7%, as compared to 3.9% in North America, between 2005 and 2009.²² "Considering that Asia has a population of more than 3.7 billion, you can see the opportunity", said Jay Rasulo, president of Walt Disney Parks and Resorts. "In particular, China is poised to be the biggest market of all."²³ Hong Kong, with a population of 6.9 million and a strong tourism base, provided the critical mass to support a Disney theme park. In addition, Hong Kong was no more than a five-hour flight for half of the world's population and was located strategically at the gateway to China, where Disney had set the goal of becoming the number one entertainment company,²⁴ so opening the next theme park in Hong Kong was a natural choice.

Hong Kong Disneyland

Hong Kong Disneyland was built and operated by Hong Kong International Theme Parks Ltd. (HKITP), a joint venture between Disney and the Hong Kong government. The park, located at Penny's Bay on Lantau Island, was 126 hectares in size with another 54 hectares reserved for further expansion. The total project development cost was HK\$27.67 billion, of which HK\$2.3 billion was covered by a commercial loan. The government contributed HK\$3.25 billion in return for a 57% equity interest in HKITP, and another HK\$6.1 billion in loans for the project. In addition, it also invested HK\$13.57 billion on site formation and infrastructure building to prepare Penny's Bay for the park's construction. By comparison, Disney invested HK\$2.45 billion in return for a 43% equity interest in HKITP.²⁵ It earned royalty payments between 5 and 10% on revenues generated from admissions and money spent in the park, and

¹⁸ Walt Disney Co. (2005) "Annual Report" http://corporate.disney.go.com/investors/annual_reports.html.

¹⁹ Whaley, F. (2001) "Move over Mickey", *Asian Business*, 37 (5): 28.

²⁰ Yoshii, C.L. (29–30 April 2002) "International Theme Park Development and Trends: Implications and Lessons Learned for China", Presentation by Economic Research Associates in Shenzhen, China.

²¹ Jones, C.B. and Robinett, J. (June 1995) "The Future Role of Theme Parks in International Tourism", ERA Issue Paper, Economic Research Associates.

²² Banay, S. (31 May 2006) "Wild Ride for Amusement Parks", http://www.forbes.com/home/travel/2006/05/31/world-amusement-parks_cx_sb_0601feat_ls.html (accessed oct 17 2006).

²³ Koranteng, J. (6 April 2005) "Europeans Intrigued by China Pattern", *Amusement Business*.

²⁴ Transcript of Hong Kong Disneyland Investor Event—Final, *Fair Disclosure Wire*, 8 September 2005.

²⁵ Hong Kong Tourism Commission, Economic Services Bureau (November 1999) "Briefing Paper: Hong Kong Disneyland", <http://www.legco.gov.hk/yr99-00/english/hc/papers/brief.pdf> (accessed 29 October 2006).

received a 2% base fee plus a variable fee based on the theme park's performance for managing the park.²⁶

Since the theme park was a commercial project, negotiations between Disney and the government were kept under cover and the deal was announced only after it was finalised. The government's disproportionate share of investment in the project gave rise to strong responses from the local community. The government defended itself on the grounds that in contrast to Disney, which assessed the project on its commercial rate of return, it assessed the project on the basis of its economic benefits to Hong Kong.²⁷ The government projected that the Disney theme park would bring net economic benefits of HK\$148 billion to the territory over 40 years and would create 54,200 jobs by 2020.²⁸ The government also saw the Disney theme park as a strategic infrastructural project that would help turn Hong Kong into a "world city"²⁹ and a family destination for tourism.³⁰ While Hong Kongers generally welcomed the benefits of the park, the controversial co-operation between the government and Disney generated much debate within the community.³¹

Acculturation in Park Design

When Disneyland Paris opened in 1992, Disney banned wine from the park's restaurants as it saw wine as incompatible with family entertainment. Rides were named in English and its working conditions led workers to walk off in protest days after it opened. Disney's cultural insensitivity caused uproar among the French public, driving one critic to call the park a "cultural Chernobyl".³² Having learnt its lessons, Disney worked hard to be culturally sensitive in planning Hong Kong Disneyland. The layout of the park was rotated several degrees at the early design stage at the recommendation of a *feng shui* master. In line with Chinese tradition, auspicious dates were picked for the commencement and completion of all the park's buildings. The number eight, which signified prosperity in Chinese culture, abounded in the park, while the number four, which was associated with death, did not appear even on lift buttons. Park signs and explanation for rides were written in both Chinese and English for the convenience of the Chinese tourists.³³ The park also offered both local music and food, including the first Chinese eatery on Main Street. Taking into account the Chinese's unfamiliarity with Disney's stories, Disneyland opened with only 16 attractions, compared to 52 at Disneyland Paris. At 126 hectares, Hong Kong Disneyland was the smallest among the Disney theme parks—it took only 30 minutes to walk through the park.³⁴ Aware of Chinese tourists' strong liking for taking pictures, Disney introduced Fantasy Garden, the first in any Disney theme park, for visitors to take pictures with Disney characters.³⁵

Unprepared at Opening

Despite its efforts, Disney failed to fully appreciate the gap that existed between the American brand and Chinese culture. With little idea about Disney's stories and their characters, many

²⁶ Transcript of Hong Kong Disneyland Investor Event—Final, *Fair Disclosure Wire*, 8 September 2005.

²⁷ Transcript of Press Conference on Hong Kong Disneyland Project by the Hong Kong government, 3 November 1999.

²⁸ Hong Kong Tourism Commission, Economic Services Bureau (November 1999) "Briefing Paper: Hong Kong Disneyland", <http://www.legco.gov.hk/yr99-00/english/hc/papers/brief.pdf> (accessed 23 October 2006).

²⁹ Hong Kong government (4 November 1999) "Chief Executive's Speech", Press Release, <http://www.info.gov.hk/gia/general/199911/04/1104231.htm> (accessed 20 October 2006).

³⁰ Hong Kong government (3 November 1999) Transcript of Press Conference on Hong Kong Disneyland Project, <http://www.info.gov.hk/gia/general/199911/03/disney-e.htm> (accessed 20 September 2006).

³¹ See cases "Hong Kong Disneyland (A): The Walt Disney Perspective", "Hong Kong Disneyland (B): The Walt Disney Perspective" and "Hong Kong Disneyland (C): The Joint Venture Negotiation" published by Asia Case Research Centre, University of Hong Kong, 2000.

³² Wiseman, P. (10 November 2005) "Miscues Mar Opening of Hong Kong Disney", *USA Today*.

³³ Ho, D. (6 February 2006) "Hong Kong Disneyland—It's a Small World", http://www.brandchannel.com/features_profile.asp?pr_id=269 (accessed 20 September 2006).

³⁴ Ibid.

³⁵ Schuman, M. (8 May 2006) "Disneyland Hong Kong's Headache", *Time Asia*.

mainland visitors were unsure what to expect or how to enjoy the park. Some left after wandering around the park for a couple of hours.³⁶ “We need to take visitors almost by the hand and tell them what to expect,” said Joseph Wang, vice-chairman of Ogilvy & Mather China, Disney’s marketing company.³⁷ Disney had already focused its marketing campaign on educating people about core Disney stories prior to the park’s opening,³⁸ but it acknowledged in hindsight that its marketing was not aggressive enough. John Ap, associate professor of Hong Kong Polytechnic University’s School of Hotel and Tourism Management, said: “Disney knows the theme-park business, but when it comes to understanding the Chinese guest, it’s an entirely new ball game.”³⁹

One such example was when Disney launched a discounted one-day ticket in early 2006 that allowed ticket holders to visit the park anytime within six months aside from special days designated by the park. Disney designated the four days that Hong Kongers enjoyed as public holidays during Chinese New Year as special days. It was unaware that mainland China enjoyed seven days instead.⁴⁰ So it was totally unprepared when crowds of mainland tourists swamped its gates, demanding access to the park. In order to control the crowds, park staff shut the gates repeatedly despite the fact that visitors held valid tickets.⁴¹ The commotion that arose was captured by local TV stations, leading to strong criticisms from the local press [see **Exhibit 6**]. The embarrassing blunder led to an emotional public apology from Bill Ernest, the park’s executive vice-president and managing director. “We regret that anyone may have been disappointed. No one is more disappointed than we are. As a father, I understand how frustrating it is to disappoint your children,” he said.⁴²

Disney also ran into problems with travel agencies and tour operators. Most mainlanders took packaged tours when they went on vacation, so travel agencies and tour operators played a key role in funnelling tourists to the park. Hong Kong Disneyland Hotel and Disney’s Hollywood Hotel required Chinese travel agencies to reserve a guaranteed number of rooms weeks in advance when in fact most mainland tourists finalise their plans only a few days before they take off.⁴³ In addition, Disney was unaware that the places which package-tour guides took their clients to depended on the commission they got from each venue. Hence it failed to give adequate commission to entice mainland travel agencies to market the theme park.⁴⁴ “They started off doing business the American way, so they have encountered problems”, said Victor Yu, general manager of Beijing’s China CYTS Outbound Travel Service.⁴⁵

Though Disney had purposely kept down the size of the park during the initial phase, local visitors expressed disappointment at the size of the theme park and its failure to measure up to its counterparts in the US, while some mainland visitors opted for Ocean Park because the admission price for Disney was too high. Visitors also complained about long queues for rides and at restaurants.

On the labour front, dissatisfaction among local staff also gave rise to a multitude of complaints and disputes. Within three months of Disneyland’s opening, 120 complaints were lodged with the Confederation of Trade Unions by Disney staff. Twenty of the complaints

³⁶ Fowler, G.A. and Marr, M. (9 February 2006) “Disney and the Great Wall: Hong Kong’s Magical Kingdom Struggles to Attract Chinese Who Don’t ‘Understand’ Park”, *Wall Street Journal*.

³⁷ Marr, M. and Fowler, G.A. (14 June 2006) “Hong Kong Disneyland Tries to Bridge Gap”, *The Wall Street Journal*.

³⁸ Transcript of Hong Kong Disneyland Investor Event—Final, *Fair Disclosure Wire*, 8 September 2005.

³⁹ Schuman, M. (8 May 2006) op. cit.

⁴⁰ Bradsher, K. (3 February 2006) “Disney Magic a Long Wait Away in Hong Kong”, *The New York Times*.

⁴¹ Fowler, G.A. and Marr, M. (9 February 2006) op. cit.

⁴² Eng, D. and Wu, H. (7 February 2006) “Trouble at the Park”, *South China Morning Post*.

⁴³ Schuman, M. (8 May 2006) op. cit.

⁴⁴ Fowler, G.A. and Marr, M. (9 February 2006) op. cit.

⁴⁵ Schuman, M. (8 May 2006) op. cit.

were related to occupational sickness, ranging from back pain to damaged voices⁴⁶ and serious muscular problems from standing too much.⁴⁷ Cast members complained that they were only entitled to a 15-minute break every four hours, compared to every two hours at other Disney theme parks. They also complained of the underhanded manner in which Disney handled overtime pay. Many staff at Hong Kong Disneyland did not work the same number of hours everyday and they received overtime pay only when their work hours exceeded 195 hours monthly, compared with other Disney theme parks where overtime pay was calculated based on an eight-hour workday.⁴⁸ Cast members also complained that Disney's middle management blocked their views from being heard by the top management.⁴⁹

Other mishaps included the park staff's refusal to let government food inspectors enter the park to do their job unless they hid their identity by taking off their caps and badges. Pop stars who agreed to act in free promotional videos for the park complained about being bossed around in the park, and Kelly Chen, one of the most popular singers in Hong Kong vowed she would never return.

Disney's blunders were further accentuated by its failure to communicate openly with the Hong Kong public, such as its consistent refusal to disclose Disneyland's attendance figures. Disney's refusal, which was in line with Disney's corporate policy, failed to take into account that Hong Kong Disneyland, though a commercial operation, was built largely with the tax money of Hong Kong residents who expected a reasonable degree of accountability. A poll conducted locally showed that the opinion of 70% of the respondents towards Hong Kong Disneyland took a downward turn following the opening of the park, and 95% of the respondents indicated that Disney should improve its communication with the public.⁵⁰

Crisis Management

Disney moved to remedy their mistakes quickly. It added subtitles in simplified Chinese characters to its Broadway-style shows and provided crash courses for visitors in the form of day-trip guides that explained how they could enjoy the park, highlighting how the park's experience could improve family relationships.⁵¹ It also changed its advertising campaign from showcasing the park to showing visitors' experience in the park and how families could share the Disneyland experience together to help potential visitors understand the park.⁵² When it prepared for the summer peak season in 2006, it spent three times the amount on marketing than it had up to that time.

Disney learnt to be more flexible with travel agents and tour operators, reducing the advanced notice required for booking hotels.⁵³ It offered tour operators a 50% personal discount if they visited the park and its hotels to encourage them to bring their customers to the park. Commission for tour operators was increased by HK\$2.50 per adult ticket and tour operators were offered open tickets instead of fixed-date ones to give them more flexibility in bringing visitors to the park.⁵⁴ Nonetheless, Disney offered only 10% discount to local travel agents, compared with the 20% offered by Ocean Park.⁵⁵ Disney also gave away 50,000 free tickets

⁴⁶ Leung, W. (30 November 2005) "Disney Staff in Row with Supervisors", *Hong Kong Standard*.

⁴⁷ Lam, A. (30 November 2005) "Disgruntled Staff Set up Disney Union", *South China Morning Post*.

⁴⁸ Lam, A. (12 October 2005) "Mountain in Hong Kong", *Associated Press*.

⁴⁹ Leung, W. (30 November 2005) op. cit.

⁵⁰ Hong Kong Polytechnic University (4 April 2006) "Local Residents Have Mixed Views towards Disney", http://www1.polyu.edu.hk/hotnews/details_e.php?year=2006&news_id=950 (accessed 14 October 2006).

⁵¹ Fowler, G.A. and Marr, M. (9 February 2006) op. cit.

⁵² Marr, M. and Fowler, G.A. (14 June 2006) op. cit.

⁵³ Schuman, M. (8 May 2006) op. cit.

⁵⁴ Fowler, G.A. and Marr, M. (9 February 2006) op. cit.

⁵⁵ Einhorn, B. (6 February 2006) "Disney's Mobbed Kingdom", *BusinessWeek Online*, http://www.businessweek.com/bwdaily/dnflash/feb2006/nf2006026_2086.htm (accessed 8 October 2006).

to Hong Kong taxi drivers so they could share their personal experience of Disney with their passengers. Disney hoped that this move would boost attendance and help the park to meet its target of 5.6 million visitors during its first year of operation.⁵⁶

Impact of Competition on Ocean Park

Ocean Park expected its attendance to drop by as much as 25% when Hong Kong Disneyland opened,⁵⁷ but Disney's opening did not wield a major impact on the Park. September was traditionally a low season for the Park since schools resumed, and the Park saw an average attendance of 10,000 visitors a day during Disney's opening period,⁵⁸ compared to a daily average attendance of 11,000 visitors the previous year. A local poll showed that 80% of the respondents found the experience at Ocean Park comparable with Disneyland and two-thirds disagreed that most people would like to visit Disneyland more than Ocean Park.⁵⁹

Ocean Park's Positioning

Market Position

In 2003, Ocean Park, with its aging facilities, was facing increased competition from a range of other areas: from local shopping malls to the growing tendency for families to spend long weekends on the mainland or other parts of Asia.⁶⁰ The entrance of Disney also meant the Park had to face one of the most formidable competitors in the theme park industry. Zeman had never visited Ocean Park until he was appointed chairman and he was blown away by the scenic view of the cable car ride on his first visit. "I knew we not only had to save the park but make it more relevant to everyone," he said.⁶¹ Zeman and his team began immediately formulating a plan for the future of the Park.

The up side of Disney's entrance for Ocean Park was that it would bring more visitors to Hong Kong and turn the territory into a family destination. The down side was that the local park now had to compete against the leader in the global theme park industry. Ocean Park studied theme parks around the world, especially those located near Disney, and found many of them refrained from competing head to head with the latter. Knott's Berry Farm in California focused on younger children while SeaWorld in San Diego flourished on an aquatic theme.⁶² In Japan, despite the closing of some theme parks after Universal Studios Japan opened, those with a strong focus on children or animals survived.

While Disney was a fantasy operation based on its movie products and intellectual properties, Ocean Park, with its focus on animals and nature, was about reality. Playing on that difference, the Park decided to use the theme of connecting people with nature through the "Ocean" and "Animal Encounter"⁶³ to differentiate itself from Disney. If Disney offered cartoons, movies, the castle and a taste of America, Ocean Park showcased animals, natural surroundings and a cable car ride with a fantastic view of Hong Kong.⁶⁴ Staying true to its mission, Ocean Park also decided to continue focusing on education and conservation in

⁵⁶ Schuman, M. (8 May 2006) op. cit.

⁵⁷ Lam, A. (29 May 2006) "Ocean Park Record Dispels Fears of Disney Challenge", *South China Morning Post*.

⁵⁸ *South China Morning Post* (29 April 2006) "No Secrets at Reborn Ocean Park ...".

⁵⁹ Hong Kong Polytechnic University (4 April 2006) op. cit.

⁶⁰ Ocean Park Corporation (2003) "Annual Report".

⁶¹ Gluckman, R. (September 2005) "Mickey Mouse Meets Mao", <http://www.gluckman.com/HKDisney.htm> (accessed 25 July 2006).

⁶² Einhorn, B. (24 May 2005) "Hong Kong's Theme Park Clash", *China Journal*.

⁶³ Ibid.

⁶⁴ Ocean Park Corporation (2005) "The New Ocean Park" Press Kit.

addition to providing entertainment. The Park envisioned its future as a world-class marine-themed park.⁶⁵ “We are not trying to ‘outdo Disney’ but rather complement it,” Zeman said. “With Disney, we have to go world-class or we will fail.”⁶⁶ The Park also believed that a focus on animals and marine life would offer something for everybody in the family from the oldest to the youngest.⁶⁷

In contrast to the American brand, Ocean Park also positioned itself as Hong Kong’s home-grown park. “Disney is a great brand, and one Hong Kong is lucky to get,” Zeman said. “But a lot of people look at it as an American brand. Ocean Park is home grown, and Hong Kong people take a lot of pride in it. They have memories growing up around the park, and we want to build on that.”⁶⁸

Target Market

Ocean Park, similar to Disney, targeted the family market. The Park defined the family as everyone from children to grandparents. In order to attract repeat visits from local families, it ran special exhibitions that catered to everybody from kids to grandparents, such as the jellyfish aquarium. In addition, the Park ran programs to target secondary markets. The Ocean Park Academy catered to school children, and special yearly events, such as the Halloween bash, were geared towards teenagers. Ocean Park held its first Halloween bash in 2001 and its haunted houses and scary characters were such a success that the Park had to turn people away for the first time in its history.⁶⁹

Attendance at Ocean Park could be categorised into locals; mainlanders, who visited mostly in group tours; and fully independent travellers (FIT) who do not travel as part of a tour group. Local visitors accounted for about 40% of the Park’s attendance, mainland visitors 50% and the rest were FITs. The three groups of visitors showed different patterns in park usage. Local visitors usually arrived at around 10 a.m. and stayed until 2 p.m.; FITs arrived at the same time and stayed until the park closed, while the group tours arrived at around 2 p.m. and stayed for an average of 3.5 hours. Among the three groups, group tours, restricted by their itineraries and short stays, spent the least in the Park.

Pricing

The entrance to a Disney theme park in any market tended to allow local players to raise their price. Ocean Park’s strategy was to “provide 80% of the bang at 60% of the buck.”⁷⁰ It charged HK\$185 for an adult day pass and HK\$93 for children between the ages of 3 and 11. In comparison, Disneyland charged adults HK\$295 on regular days and \$350 on peak days, and children between the ages of 3 and 11 paid HK\$210 on regular days and HK\$250 on peak days [see **Exhibit 7**]. Zeman pledged that the price of Ocean Park would stay lower than Disneyland as long as he remained Ocean Park’s chairman.

Exploring New Opportunities

When Mehrmann joined Ocean Park, the Park was drawing 85% of its revenues from its gates and 15% from in-park spending. Mehrmann saw the opportunity to boost the Park’s revenues by increasing in-park spending. “It’s what I refer to as the low-lying fruit”, he said. The Park brought the retail operations in-house, ending third party relationships of its retail shops and

⁶⁵ Hong Kong Legislative Council (December 2005) “Item for Finance Committee”, FCR(2005-06)35.

⁶⁶ Chan, C. (19 March 2005) “\$5.5b Plan to Revamp Ocean Park Is Unveiled”, *South China Morning Post*.

⁶⁷ Hong Kong General Chamber of Commerce (24 March 2003) “Ocean Park”,

http://www.chamber.org.hk/info/member_a_week/member_profile.asp?id=36&P=3&KW=&search_p (accessed 8 October 2006).

⁶⁸ Gluckman, R. (September 2005) op. cit.

⁶⁹ Emmons, N. (18 November 2002) “Hard Work Key to Success at Ocean Park Hong Kong”, *Amusement Business*.

⁷⁰ Whaley, F. (2001) op. cit.

food and beverage outlets to increase its income. It also began to explore the potential of adding three hotels both within the Park and in the neighbourhood of the Park, a move that would significantly boost in-park spending.

Service Excellence

Service was an integral part of the theme park experience and Disney, which defined service excellence as exceeding customers' expectations, had made service excellence a cornerstone of all its theme parks. Following suit, Ocean Park also strived for service excellence. However, service-related complaints remained the most common complaints the Park received, even though it enjoyed more tolerance from visitors as a local park and the number two theme park in the market. "When you are in a service environment on a 38-degree day with 95% humidity, responding to the same questions and comments again and again, and employees need to treat each question or comment as the first time they've heard it, the repetitive nature of the business requires a great deal of patience and perseverance", Mehrmann said.⁷¹

Different types of visitors used Ocean Park in different ways, which made achieving service excellence more difficult. As a result of time constraint, group visitors tended to be more aggressive in using the Park compared with local visitors. They were also less protocol-conforming; for example, they were more likely to be found smoking in smoke-free areas or cutting through buildings. As a result, group visitors put a stronger demand on park management as the Park tried to ensure a satisfactory experience for both group and local visitors. The Park also had to keep its staff well-trained in Mandarin in order to both serve and manage group visitors, who mainly comprised mainland visitors.

Ocean Park used no formal metrics for measuring service excellence and the drive towards service excellence was achieved mainly through changing the management style. Mehrmann described the management team before he came on board as instigators of a "huge ivory tower situation" between management and employees. He adopted a different philosophy, walking the Park regularly, picking up rubbish along the way, and taking the time to get to know the employees personally. In addition to quarterly meetings with all the employees, he organised monthly exchange programs with the staff to solicit their input, and made sure that the management responded to that input. "To the employees, it's a case of: 'If you take care of us, then we will take care of the guests' ", he said.

Whereas the old management focused on what the staff did wrong, the Park's new management focused on what they did right. The Park tracked visitors' experience of the park by asking them to fill out a comment form. Helpful and outstanding employees mentioned by name in the comment form would be rewarded with trips abroad through a lucky draw. By giving employees recognition, Mehrmann hoped that they would have a stronger sense of belonging and would go that extra mile for guests, offering simple things such as returning a lost wallet or volunteering to take pictures for guests. "It's the little things that can make a difference", he said. Nonetheless, communication with staff was not always easy as they did not immediately connect the message behind gestures to show appreciation for their work—such as free offers of ice cream and theatre tickets—and the Park's performance.

Master Plan

Ocean Park's vision of itself as a world-class marine park was translated into a HK\$5.55 billion master plan to revamp the Park [see **Exhibit 8**]. Under the plan, the size of the Park would increase from 30 hectares to 43.8 hectares, the number of attractions would double to

⁷¹ Interview with Thomas Mehrman on 8 September 2006.

more than 70, the number of shows would triple to 12, and more than 30 new animal species would be introduced by 2010. The number of restaurants would increase from 7 to 27 and the retail area would more than double to 19,000 square feet. However, the construction of hotels was not included in the plan as that involved amendments to the Ocean Park Ordinance, nor were they factored into the business models.

The revamping of the Park was planned to be carried out in eight phases over a six-year period. This would ensure that the Park would remain open during construction, until its completion in 2012. New attractions were to include an aquarium where guests could dine with fish swimming around them, an underground train, new thrill rides and a rainforest among others [see **Exhibit 9**]. The redevelopment would increase the daily attendance capacity of the park from 36,300 visitors to 53,600 visitors. Consultants estimated that, with the redevelopment, attendance at the Park would increase to 3.4 million in 2007–2008, more than 5 million by 2010–2011 and more than 7 million by 2021–2022 [see **Exhibit 4**]. Financial analyses projected the Park's revenue at HK\$1.3 billion annually with the completion of the first phase, and HK\$2.1 billion with the completion of the second phase.⁷²

The revamping of the Park was expected to boost Hong Kong as a premiere destination for family visitors, to jumpstart the urban re-generation of the south side of Hong Kong Island and the development of Aberdeen as a tourism area. In terms of economic benefits to the territory, the Park was expected to contribute with 0.5% of Hong Kong's GDP by 2010.

Cash Strapped

Ocean Park launched a syndicated loan in April 2006 to raise funds for its redevelopment project. The master plan was estimated to cost HK\$5.5 billion and the Park did not have enough money to fund the project itself. As of June 2004, the Ocean Park Trust Fund had a balance of HK\$288 million and the Park had an operating cash reserve of HK\$325 million. The operating cost of the Park for 2003–2004 was HK\$338 million.

In 2005, the government committed to revamping the park with a subordinated loan of HK\$1,387.55 million at a fixed interest rate of 5% per annum and a loan term of 25 years [see **Exhibit 10**]. Ocean Park still had to raise the remaining 75% of the project costs through the commercial banking sector. Nonetheless, the government felt that it had to support at least half of Ocean Park's borrowing in order for the Park to secure enough loans for the project, so it offered additional support through a guarantee of repayment of one third of the commercial loan (HK\$1,387.55 million) plus the interest that arose from the loan, which was expected not to exceed HK\$700 million. The government's support for Ocean Park's redevelopment entailed a total risk exposure of up to HK\$3,475 million. The risk exposure of the loan was shared equally between the government and the commercial market.

The financial support given by the government was structured in a way that Ocean Park had to first draw the subordinated loan, followed by the government-guaranteed commercial loan (Tranche A), and then the commercial loan (Tranche B) [see **Exhibit 11**]. At the same time, the Tranche B commercial loan would be repaid first, before the Tranche A government-guaranteed commercial loan. The financial package also stipulated that Ocean Park should always "prepay" the commercial loans as far as possible. The tenure of the commercial loans was 15 years.

The fact that Ocean Park was designated a public sector entity by the Hong Kong Monetary Authority favoured the Park when lenders assessed the risk in participating in the syndicated

⁷² Hong Kong Legislative Council (December 2005) "Item for Finance Committee", FCR(2005-06)35.

loan.⁷³ The government's guarantee also served as a strong token of confidence for the project. Nonetheless, its non-recourse nature meant that repayment would begin only when the redevelopment project was completed and the project began generating revenues, giving rise to the long tenure of the commercial loans. Although this structure allowed banks to earn higher margins,⁷⁴ it also increased their risk exposure.

Master Plan Put to Test

Ocean Park's syndicated loan was launched with Bank of China (Hong Kong), DBS Bank and HSBC as the mandated lead arrangers.⁷⁵ The launch of the syndicated loan essentially put the Park's master plan and major enhancement strategy to test in the financial market. Ocean Park's high attendance figure during the period of Disney's opening suggests the Park has adopted the right strategy, but competition from Disney remained intense. Theme parks were complex operations and major glitches during their openings were not unprecedented in the industry. Universal Studio's theme park in Florida ran into major technical glitches when it opened, but it managed to rebound. How would the commercial banks respond to Ocean Park's strategic plan? Was the Park's positioning strategy strong enough to win their confidence in the face of competition from Disneyland?

⁷³ Ocean Park (13 June 2006) "It's Time...", Press release, <http://www.oceanpark.com.hk/eng/main/index.html>.

⁷⁴ *Euroweek* (19 May 2006) "Ocean Park Loan Swamped after Blowout Syndication".

⁷⁵ *Financial Times* (14 June 2006) "Hong Kong Ocean Park Gets HK\$55.5B in Loans for New Project".

**EXHIBIT 1: INBOUND TOURISTS AND MAINLAND TOURISTS
VISITING HONG KONG BY YEAR**

Year	Number of Inbound Tourists (in millions)	Number of Mainland Tourists (in millions)	Percentage of Mainland Tourists among Inbound Visitors to Hong Kong
1996	12.97	2.39	31.00%
1997	11.27	2.36	26.60%
1998	10.16	2.67	27.13%
1999	11.33	3.20	28.24%
2000	13.06	3.79	29.02%
2001	13.73	4.45	32.41%
2002	16.57	6.83	41.22%
2003	15.54	8.47	54.50%
2004	21.81	12.25	56.17%
2005	23.36	12.54	53.70%

Source: Hong Kong Tourism Board (2006) "A Statistical Review of Hong Kong Tourism 2005".

EXHIBIT 2: HONG KONG TOURISM CLUSTERS

The Hong Kong government announced in 2001 that it would develop five tourism clusters in order to upgrade the territory's facilities and to attract more visitors. The five clusters included the following:

Yam O on Lantau Island

This cluster, together with Hong Kong Disneyland, the Tung Chung Cable Car and the Big Buddha, will turn Lantau Island into a tourism area.

Sai Kung in eastern New Territories

Sai Kung, with its countryside and beaches, was to be developed into an area with facilities for outdoor activities, such as hiking and water sports. The development of the Sai Kung cluster also would include world class resorts.

A cultural belt stretching along the West Kowloon reclamation area

This belt would include existing museums and performing arts centres, the former Marine Police Headquarters and the Tsim Sha Tsui Promenade. It would include a new tourism area with a large-scale, multi-purpose stadium and a new cruise terminal in south-east Kowloon.

A heritage, entertainment and dining area in the heart of Central

This area will cover a number of existing landmarks, such as the Government House, St. Johns' Cathedral, and the city's prime nightlife district, Lan Kwai Fong.

The redevelopment of Ocean Park and the new Aberdeen Harbour tourism node

Ocean Park aside, the Aberdeen Harbour tourism node would include a Fisherman's Wharf, a traditional fishing village and a leisure and dining node.

In addition to the five above-mentioned tourism clusters, the government also had other tourism projects in the pipeline, including the Hong Kong Westland Park near Mai Po in the north-western part of Hong Kong.

Source: Hong Kong Government (July 2002) "HKSAR: The First Five Years 1997-2002",
<http://www.info.gov.hk/info/sar5/eindex.htm>.

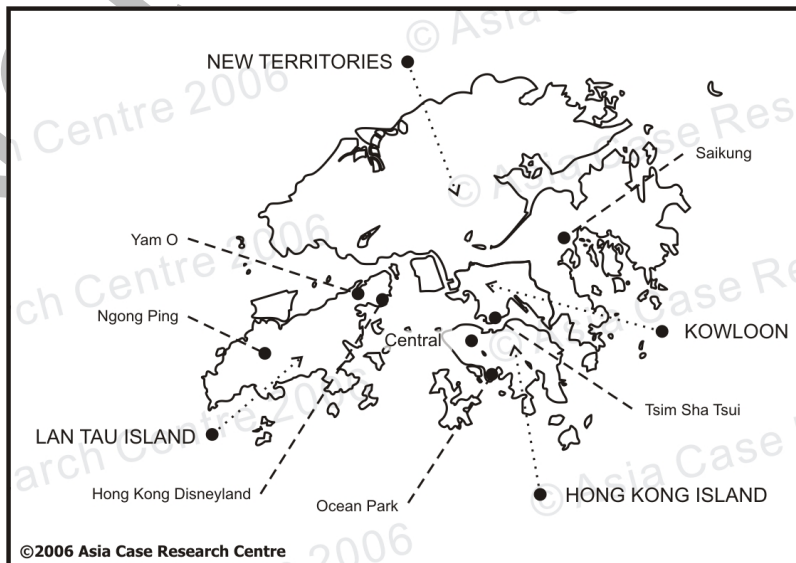


EXHIBIT 3: PROFIT AND LOSS OF OCEAN PARK

Fiscal Year	Profit/Loss in millions (HK\$)
1996–1997	83.90
1997–1998	-85.10
1998–1999	-33.20
1999–2000	-23.70
2000–2001	-62.10
2001–2002	15.30
2002–2003	-4.10
2003–2004	95.70
2004–2005	119.50

Source: Ocean Park Corporation “Annual Reports” from 1996 to 2004.

EXHIBIT 4: HISTORICAL AND PROJECTED ATTENDANCE OF OCEAN PARK

Fiscal Year	Total Visitors (in millions)
1996–1997	3.3
1997–1998	4.1
1998–1999	3.0
1999–2000	3.1
2000–2001	2.8
2001–2002	3.4
2002–2003	3.0
2003–2004	3.7
2004–2005	4.0
2005–2006	4.38
2006–2007	*
Projected Figures	
2007–2008	3.4
2008–2009	4.2
2009–2010	4.6
2010–2011	5.0
2011–2012	5.5
2012–2013	5.8
2013–2014	6.1
2014–2015	6.2
2015–2016	6.3
2016–2017	6.4
2017–2018	6.5
2018–2019	6.7
2019–2020	6.8
2020–2021	6.9
2021–2022	7.0

* Attendance at Ocean Park surged past the 1 million mark between 1 July, the beginning of the fiscal year, and the end of August 2006.⁷⁶

Source:

Annual Reports, Ocean Park Corporation;

Hong Kong government, government presentation CB(1)406/05-06(1);

Hui, S. (10 September 2006) “Hong Kong Disneyland Facing Unexpectedly Tough Competition from Local Fixture Ocean Park”, *Associated Press*;

Eng, D. (29 August 2006) “Ocean Park Numbers Hit the 1 Million Mark over Summer Period”, *South China Morning Post*;

Crawford, B. (30 November 2006) “Foul Air HK’s No. 1 Worry, says Zeman”, *South China Morning Post*.

EXHIBIT 5: LAN KWAI FONG



**EXHIBIT 6: MEDIA CRITICISM OF DISNEY'S
CHINESE NEW YEAR TICKETING BLUNDER**

Media Comments	Source
<p>“The apology struck the right note. So did the promise to learn from mistakes and consult more with the tourist industry about expected demand. But sentiment only goes so far.</p> <p>The press conference was conspicuously lacking in frankness about what went wrong, why mistakes were not identified sooner and about how Disney plans to avoid a repetition. Even in the moment of mea culpa, the lack of transparency and accountability that has marked Disney’s management of one of Hong Kong’s biggest public assets was on show. Communication was minimal, commercial confidentiality carried to absurd lengths.”</p>	<p><i>South China Morning Post</i> (5 February 2006) “Disney Must Come Clean on Ticket Fiasco”.</p>
<p>“The chaos at Hong Kong Disneyland has turned it into the laughing stock of the international community. The foreign media, which widely reported the incidents, said it was unbelievable.”</p>	<p><i>Xin Pao</i> (10 February 2006) “Disney Is a Shame to the Family”.</p>
<p>“Following the chaos on the 3rd and 4th of the Chinese New Year, some mainlanders visiting Hong Kong on the Individual Visit Scheme have gone to queue up outside the gates of Disneyland at two or three o’clock in the morning to avoid not being able to get in.</p> <p>Some children can be seen shivering in the cold night on television, and some adults have baggage lying all around them. It is hard to relate this scene to Disneyland. It looks more like an evacuation or people waiting for relief.”</p>	<p>Guan, Z. (6 February 2006) “Waiting Overnight to Get into Hong Kong Disneyland Is a Shameful Scene”, <i>Da Gong Bao</i>.</p>
<p>“... Disney theme parks have operated for dozens of years, when have the parks ever seen such fierce and violent ‘customers’? You don’t want to let me in? I just have to get in. You close the gates? I will climb over the wall. Disneyland is not a sealed compound and it was surrounded by travellers from the Individual Visit Scheme who fought each other to climb over the walls. Chinese people were never worth a dime, they were sent to filling dugouts and block gunshots in wars. Why would Disney not wreck them?”</p>	<p>Li, C.E. (6 February 2006) “Go Forward, Go Forward”, <i>Apple Daily</i>.</p>
<p>“Hong Kong Disneyland got into trouble again. It closed the gates to people who spent a lot of money to buy its tickets and came all the way over the mountains and across the water. The foreigners who managed the park actually ignored these people who were crying and jumping up and down as if they did not exist. These foreigners abuse us Chinese without blinking an eye, how can that be?”</p>	<p>Gu, T.L. (6 February 2006) “One Must Be Disrespectful towards Oneself Before Another Will Insult Him”, <i>The Sun</i>.</p>

**EXHIBIT 7: COMPARISON OF ADMISSION FEE BETWEEN
OCEAN PARK AND HONG KONG DISNEYLAND**

	Ocean Park (HK\$)	HK Disneyland (HK\$)
Adult	\$185	Regular: \$295 Peak: \$350
Child	\$93	Regular: \$210 Peak: \$250
Senior (over 65)	Free	Regular: \$170 Peak: \$200
SmartFun Annual Gold Pass (unlimited access) Adult	Adult: \$550 Child: \$275	—
Summer Pass (unlimited access for 3 months)	—	Adults: \$450 Children (3 - 11): \$329 Senior (over 65): \$270

Source: Ocean Park, <http://www.oceanpark.com.hk/eng/main/index.html>;
Hong Kong Disneyland, http://park.hongkongdisneyland.com/hkdl/en_US/ticketsAndReservations/tickets?name=TicketsPage.

**EXHIBIT 8: BREAKDOWN FOR \$5.55 MILLION
OCEAN PARK REDEVELOPMENT PROJECT**

Item	Cost Estimates (HK\$ Million)	Remarks
Capital Cost	4,525	Includes the following: <ul style="list-style-type: none"> • Demolition (HK\$80 million) • Site formation (HK\$328 million) • Access roads (HK\$132 million) • Infrastructure (HK\$304 million) • Facilities at the Summit (HK\$1,705 million) • Facilities at the Waterfront HK\$1,237million) • Funicular system and cable car upgrade (HK\$464 million) • Area development (HK\$230 million)
Contingencies (10% of 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 opening during redevelopment.
Total:	5,550	

Source: Hong Kong Legislative Council (December 2005) "Item for Finance Committee", FCR(2005-06)35.

EXHIBIT 9: MASTER REDEVELOPMENT PROJECT FACT SHEET

	Themed Zones or Facilities	Attractions	Rides	Planned Completion
	Waterfront			
1.	Sky Fair	Helium balloons	Yes	Early 2007
2.	Temporary Entrance	Not applicable. Guest facility	N/A	Early 2007
3.	Astounding Asia	Asian animals	No	2008
		Exotic bird show		
		Nature Trails		
4.	Funicular	Not applicable. Transportation facility	N/A	2008–2009
5.	Entry Plaza	Not applicable. Guest facility	N/A	2008–2009
6.	Lagoon	Nightly shows on the Lagoon	N/A	2008–2009
7.	Aqua City I	Grand aquarium, including shark encounter	Yes	2009
		Underwater restaurant		
8.	Aqua City II	Shopping and dining with various attractions	Yes	2009–2010
9.	Whiskers Harbour	Many new themed venues for children: rides, animal interactions, birthday area, show venue, Toy Store	Yes	2010
	The Summit			
10.	Veterinary Centre	Not applicable. Back of house facility	N/A	2007
11.	Rainforest	Rainforest exhibits with adventure trails and discovery areas, along with dynamic and family-oriented ride attractions. Elevated Aviary	Yes	2009
12.	Thrill Mountain	High energy ride attractions for young adults, teenagers and thrill seekers	Yes	2009–2010
13.	Polar Adventure	Polar animal experiences, shows and attractions	Yes	2010
		Ice palace		
14.	Ocean Dome Stadium	Stadium for marine mammal shows	No	2011
15.	Marine World I	Sea lion show	Yes	2011
		Dolphin show		
16.	Marine World II	Renovation of Pacific pier, Ocean theatre	Yes	2012
17.	Cable Car	Renovation	N/A	2012

Source: Ocean Park Corporation.

EXHIBIT 10: SUBORDINATED LOAN FROM THE GOVERNMENT

Amount	HK\$1,387.5 Million
Lender	Hong Kong 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 Ocean Park Corporation before the commercial loan. • At fixed interest rate of 5% per annum. • To be capitalised at half-yearly intervals 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 • 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"> • Ocean Park to sign a loan agreement with government. • Government to sign a subordination agreement with the commercial loan lenders.

Source: Hong Kong Legislative Council (December 2005) “Item for Finance Committee”, FCR(2005-06)35.

**EXHIBIT 11: HONG KONG GOVERNMENT GUARANTEE
FOR THE COMMERCIAL LOAN**

Amount	Covering up to principal amount of HK\$1,387.5 million of the commercial loan, plus interest accrued thereon
Guarantor	Hong Kong 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 Ocean Park Corporation after the subordinated loan has been drawn, but before drawing on the remaining part of the commercial loan (Tranche B). • The Tranche B commercial loan (which is not guaranteed by the government) will be repaid/pre-paid 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.

Source: Hong Kong Legislative Council (December 2005) “Item for Finance Committee”, FCR(2005-06)35.