

## NEWS

## SYNDICATED LOANS

# Great Wheel of China follows Singapore Flyer funding template

UniCredit is expected to syndicate a Rmb640m (US\$99m) 10-year amortising loan for **Beijing Great Wheel**, which will be the largest ferris wheel in the world. The loan forms part of a US\$190m project financing that is modelled on a similar project financing for the Singapore Flyer and will likely become the first syndicated loan for a giant ferris wheel from Asia.

Although Beijing Great Wheel's financing bears the same template as the Singapore Flyer financing, it has key differences in the form of the Rmb640m loan that finances construction of the wheel and the building and a €40m (US\$62m) 10-year guaranteed standby letter of credit (SBLC) to cover the equipment purchase agreement.

Singapore Flyer's project featured a S\$140m (US\$103m) guaranteed letter of credit provided by UniCredit to contractors Mitsubishi Heavy Industries and Takenaka, which built the wheel in Singapore and bore the costs of construction.

The L/C provided by UniCredit has been refinanced by a term loan also provided by the German bank to Singapore Flyer, but it could easily have been refinanced by future flow securitisation of ticket sales.

Likewise, the SBLC provided by UniCredit on Beijing Great Wheel's financing could also eventually be taken out by a securitisation when the

wheel becomes operational in the first quarter of 2010. This is because Global Citi Marketing, an associate of Singapore-based Great Wheel (GWC), the developer and operator of the Beijing Great Wheel, is providing a Rmb200m minimum revenue guarantee annually for 10 years.

Singapore Flyer likewise featured a similar offtake in the form of a guarantee by Adval, the tourism business and offshoot of the NTUC, under which it agreed to buy 600,000 tickets a year for 10 years.

While there are similarities on both projects, Beijing Great Wheel's has had bigger hurdles to surmount in the form of knotty PRC regulations.

To start with, the project faced three significant hurdles on the financing front. Beijing municipal regulations restricted the initial investment on the project to US\$100m, which comprised a US\$33m equity component and a US\$67m-equivalent onshore debt financing.

Over the 30-month construction period that started in late October 2007, GWC will increase the equity and debt components in two phases to match investment restrictions in line with PRC regulations relating to foreign investment. As per the rules the equity investment cannot be increased by more than 10%–20% each year.

When the project is fully funded, its equity funding would have increased to US\$40m, while the debt component would have increased to US\$150m. Great Beijing Wheel Co, an SPV incorporated in British Virgin Islands, will hold 100% stake in Beijing Great Wheel.

Unlike Singapore Flyer's financing structure, Beijing Great Wheel's project features an onshore/offshore structure that enables the project to work around regulatory restrictions that prevented a cross-border lease financing.

Those familiar with the project said that UniCredit had looked to do the entire financing, but could not arrange an onshore lease financing as it did not have the relevant licence in China.

Having an offshore lease financing arrangement would have involved cross-border payments that would have required approvals from the State Administration of Foreign Exchange. As a result an onshore lease financing structure was put in place that involves ABN AMRO Leasing entering into an equipment purchase agreement with Great Beijing Wheel Co for the purchase of the wheel's drive and control systems and 48 observation capsules.

ABN AMRO Leasing has also entered into a seven-year lease agreement with Beijing Great Wheel under which it will lease the capsules to the latter. Beijing Great Wheel is

obliged to buy the leasing assets at the expiry of the lease agreement.

Should Beijing Great Wheel fail to do so or default on its lease payments, ABN AMRO Leasing can put back the leasing assets to Great Beijing Wheel Co. In the event of a default by Beijing Great Wheel, the leasing assets will have to be purchased by Great Beijing Wheel Co, which will then lease it back to Beijing Great Wheel. The €40m SBLC provided by UniCredit serves as a guarantee for Great Beijing Wheel's payment obligations under the put and call option agreement. (*See Chart.*)

Such a structure allowed ABN AMRO Leasing to move the leasing assets off its balance sheet, while at the same time allowing Great Beijing Wheel Co to lease it back to Beijing Great Wheel.

"This ensures that the project continues to remain operational even if Beijing Great Wheel defaults on its lease payments," said Thomas Hoffmann, director treasury and controlling at GWC.

Should the need arise the capsules can be dismantled and installed on another wheel. According to Hoffmann, this could be possible under two scenarios: if a particular wheel is under-utilising its capsules, the same can be dismantled and installed on another wheel elsewhere, which might be facing a great demand for the service. It is also possible that a particular wheel might

experience technical problems with some capsules that might need to be replaced by those from another wheel.

The project's equity shareholding structure is also quite complex. Great Beijing Wheel Co is taking a 100% stake in Beijing Great Wheel for US\$33m. GWC owns a 1.5% stake in Great Beijing Wheel Co, while the remainder 98.5% is held by Global View Investment Fund, a private-equity fund managed by German fund manager Delbruck Bethmann Maffei (DBM).

GWC's entire shareholding represents class A shares, while those by DBM represent class B shares. There is a put and call agreement between class A

and B shareholders under which class A shareholders could call all class B shares after the sixth and ninth years from the completion of the project. Class B shareholders have a right to put their shares to class A shareholders after 12 years.

Class B shareholders get an 11% fixed rate of return on their investment and an additional 30% of the distributable profits left after the payment of the preferred dividend. Class A shareholders get 70% of the distributable profits.

In exchange for the preferred dividend, class B shareholders waive their voting rights, which are only available to them with regards to matters relating to

change of control and the amount of dividend to be paid out by Great Beijing Wheel Co.

"While the structure is quite complicated, its beauty lies in the fact that it caters to local requirements in China while at the same time protecting investors' interests," added Hoffmann.

A similar structure was put together in Singapore Flyer as well as GWC both of which are majority owned by GWC chairman Florian Bollen. GWC is 80% owned by Bollen, while the Singapore Flyer is 90% held by him. Both these investments are through class A shares.

All that structuring will pay off if the Beijing Great Wheel turns out to be a success.

Those familiar with the project estimate that it will attract around 4m visitors annually compared with the 2.5m forecast for the Singapore Flyer, which started operations in February 2008. With a capacity to carry up to 1,920 passengers and a height of 208 metres (682 ft), it will be the tallest giant ferris wheel in the world, comfortably beating the 165 metre-tall Singapore Flyer, and the proposed Great Berlin Wheel that will have a height of 185 metres.

GWC is building the Great Berlin Wheel and also has plans to build similar ferris wheels in Qingdao in China, Dubai, Orlando, and Mumbai.

Prakash Chakravarti

**Beijing Great Wheel project financing structure**

