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Panel on Economic Services

Background Brief on Hong Kong Disneyland

This paper provides background information on the Hong Kong Disneyland (HKD) project.

Background

2. In December 1999, the Government entered into an agreement with The Walt Disney Company (WD) to build HKD (Phase 1) at Penny's Bay. A joint venture company, the Hongkong International Theme Parks Limited (HKITP), was set up for this purpose.
3. According to the Administration, HKD would generate huge economic benefits for the Hong Kong economy, estimated to reach \$148 billion over 40 years. The project would also create many job opportunities during construction and operation stages.
4. HKD was open in September 2005. The projected annual attendance at the park during the initial commissioning was 5.6 million.

Financing

5. In 1999, the then estimated total project cost to HKITP of developing HKD Phase 1 was \$14.1 billion in money-of-the-day (MOD) prices. This is in addition to the cost of reclaiming the land for Phase 1 of the project, which was estimated at \$4 billion in MOD prices. The Government also needs to provide land, associated infrastructure and government, institution and community facilities to support the development of HKD. Details are set out below.

Land Grant

6. Under the Project Agreement reached between the Government and the WD, a site of about 126 hectares at Penny's Bay, Lantau Island (the "Phase

1 Site") should be granted by private treaty to HKITP for 50 years, with a right to renew for a further 50 years, subject to an annual rent of 3% rateable value. The land premium is \$4 billion, being the estimated pro rata cost of the reclamation and site formation.

7. WD's forecast of the financial performance of HKD (the "Base Case" ^{note 1)} showed that the project could cover the cash cost of building and operating the theme park and related facilities, but could not cover the cost of the land. Given the very substantial economic and other benefits that HKD would bring to Hong Kong, the Government agreed not to demand cash up front for the land premium, subject to certain conditions, the main ones being -

- (a) the full premium would be paid in subordinated shares which would convert to ordinary shares progressively during the life of the project to the extent that operating performance exceeded the Base Case. In this way the Government would capture its fair share of the project's upside potential;
- (b) WD would agree to take a significant initial equity stake and retain most of it for the life of the project. In this way the Government would ensure the sustained commitment to the project; and
- (c) the Government would hold a majority stake initially to protect its interest, but with the ability to sell down subsequently to third party investors.

8. In order to ensure that HKD would remain attractive as a commercial venture to existing and potential third party investors, the subordinated shares would be converted in a gradual manner. This would ensure that the benefits of the ordinary shares held by other investors would not be diluted substantially within a short period of time. Moreover, to allow for fluctuation in business in the early years of HKD, both sides also agreed that conversion would only begin after five years of theme park operation. The permitted conversion ceiling would thereafter rise by 5% per annum cumulatively thus rendering full conversion of the subordinated shares possible 25 years after opening. In order to prevent excessive equity dilution in any one year there would be an annual cap of 10% on conversion.

Cost of construction

9. The Government and WD agreed that the cost of constructing HKD, at \$14.1 billion should be financed by a mixture of debt and equity at a

^{note 1} The base case is based on several assumptions, including:

- (a) The park opens in 2005
- (b) The park's attendance in its first year of operation is estimated at 5.2 million
- (c) The park gradually reaches full annual capacity of 10 million after 15 years

commercially prudent ratio of approximately 60:40. This translates to \$8.4 billion in debt and \$5.7 billion in equity.

10. Initially WD would put up \$2.45 billion in equity for one-dollar shares and hold a 43% stake in HKITP. It would later be allowed to sell down but not below the level of 1.9 billion shares. The Government would initially put up \$3.25 billion in equity for one-dollar shares in HKITP and hold a 57% stake. The Government could sell down its stake to a minimum of one billion shares up to the end of the first year of operation. Thereafter, it could sell its shares (and also any subordinated shares that convert to ordinary shares) without any requirement for a minimum holding.

11. The debt of \$8.4 billion would be raised by a commercial loan of \$2.3 billion and a Government loan of \$6.1 billion, the latter repayable over 25 years from park opening. (Both loan figures include capitalized interest estimated at \$0.7 billion). The reason for raising just over a quarter of the debt from the open market was that in the early years the project cash flows could only prudently cover loan servicing of that amount. Repayment of the Government loan would begin ten years after HKD opens when the commercial loan has been paid off.

12. To help the project in its early years, the Government loan would carry interest on a sliding scale as follows -

- Prime minus 1.75% from drawdown to the first eight years after park opening
- Prime minus 0.875% for the next eight years
- Prime for the next nine years

13. The following summarizes the financing of the project.

Funding Sources	Amount (\$ billion)	% to total
Equity, of which	5.7	40.4%
- Government	3.25	23%
- WD	2.45	17.4%
Debt, of which	8.4	59.6%
- Government	6.1*	43.3%
- Commercial	2.3*	16.3%
Total	14.1	100%

* Including capitalized interest.

14. According to the information provided by the Administration in April 2005, as at 31 December 2004, a total of 2.02 billion have been injected to HKITP as equity, whereas the loan due from HKITP was amounted to \$3.62

billion. In 2005-2006, the Government injections and the loan drawdown are expected to be \$0.78 billion and \$1.36 billion respectively.

Associated and supporting infrastructure

15. To implement the development of HKD Phase 1, the Government has to provide a fully formed and serviced site on reclaimed land at Penny's Bay including associated and supporting infrastructure and government, institution and community facilities. The major capital spending that the Government has committed so far in this connection includes the following:

Capital Works Reserve Fund	Estimated Total Spending
Reclamation and other infrastructure works (including, for example, connecting road works, costs of construction of Inspiration Lake Recreation Centre, expenses for cleaning up of the dioxin contaminated soil, and the compensation payable to affected fishermen)	13.6 billion
Land acquisition and clearance compensation	1.6 billion

16. On railway service, the Government and MTR Corporation Limited (MTRCL) entered into a Project Agreement on the implementation of the Penny's Bay Rail Link (now known as "Disneyland Resort Line" (DRL)) in July 2002. To finance the construction and operation of the DRL, the Government advised the Panel on Transport that the Government agreed to waive its claim for \$798 million (in present value) worth of dividends that it could otherwise expect to receive as a shareholder from the MTRCL from time to time during the next few years. DRL commenced operation prior to the opening of HKD.

17. To further improve the transport network, the Administration plans to construct two slip roads to provide an alternative access to and from the Penny's Bay development for theme park visitors and to prepare for emergency situation or temporary closure of the Penny's Bay Highway, which is currently the only traffic access. The Administration will consult the Panel on Transport in April 2006.

Option for Phase 2

18. Under the Project Agreement, it had been agreed that HKITP should be given an Option to buy the site immediately to the east of the Phase 1 Site for a second phase of the development ("Phase 2 Site"). The Option is valid for 20 years from signature, with an automatic right to extend for a further five

years and a conditional right to extend for a second five year period. The premium has been fixed at \$2.812 billion (1999 prices, to be adjusted for inflation in line with Composite CPI) payable in cash or in such other manner as the parties may agree. The Option lapses after 20 years if it has not been exercised or renewed but HKITP may have two five-year extensions of which the second is conditional upon the target capacity of 10 million not being reached but the secondary target capacity of 8 million being reached. While the land is subject to the Option, it may be used for a variety of temporary purposes provided these are compatible with the adjacent theme park.

Right of First Refusal

19. In due course the site to the east of the (intended) Phase 2 Site may also be reclaimed and available for disposal. In order to keep open the possibility of a third theme park, HKITP has sought a right of first refusal to buy that site at then prevailing market prices and on normal lease terms. In view of the substantial advantages for Hong Kong's tourism industry of a third Disney park going ahead in the same location, with obvious opportunities for synergy, the Administration has agreed to grant such a right which will be valid for up to 10 years from the date of exercise by HKITP of the Option or the expiry or surrender of the Option if earlier.

Concerns expressed by Members

20. At the time when HKD was given green light to proceed in 1999, there were quite a number of issues to be followed up. The Economic Services Panel was given the responsibility to monitor the progress of development of HKD and to deal with these issues. Some new issues, such as the decommissioning at Cheoy Lee Shipyard, cropped up at a later stage and these issues, basically environmental ones, are also followed up by the Environmental Affairs Panel. The Transport Panel has reviewed the traffic and transport arrangements for HKD. The subcommittee formed under the Transport Panel also monitored the development and implementation of DRL. In gist, the major issues are:

- (a) shareholding and governance of the project company, HKITP;
- (b) Government's investment in the project company and its share conversion timetable;
- (c) Government's investment in the associated and supporting infrastructure and government, institution and community facilities;
- (d) economic benefits of HKD;

- (e) environmental impacts of HKD and decommissioning of Cheoy Lee Shipyard;
 - (f) employment opportunities for professionals and low-education workers during construction and operation stages;
 - (g) traffic and transport arrangements for HKD;
 - (h) fireworks display at HKD;
 - (i) operational readiness of HKD and contingency planning;
 - (j) expansion plan and Phase 2 development of HKD as well as the related financing and financial arrangements;
 - (k) competition from other theme park developments outside Hong Kong;
21. Since the opening of HKD in September this year, Members have raised a number of questions in the Council. Details are set out in Annex A.

LCQ13: Operation of HK Disneyland

Following is the question by the Hon Fred Li and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (October 19):

Question:

During the rehearsals of Hong Kong Disneyland (HKD) before its opening, about 30 000 visitors were received on one single day, and many of the visitors on that day complained that they had to wait an excessively long time for the use of the various facilities there and the theme park was overcrowded. In this connection, will the Government inform this Council:

- (a) of the measures adopted by the HKD to improve crowd control;
- (b) of the expansion projects to be carried out by the HKD within the next 36 months, the implementation programme and financial arrangements for these projects, and the amount of expenditure on the works to be borne by the Government; and
- (c) of the criteria adopted by the Government, as a shareholder of the HKD, for determining the expansion projects to be supported, and whether the Government's capital injection into such projects is subject to the approval of the Finance Committee of this Council?

Reply:

Madam President,

In the light of observations made during the rehearsal days, Hong Kong Disneyland Management Limited (Management Company) considers that certain areas of the operation of the Hong Kong Disneyland need to be adjusted. For example, the Management Company observed that local visitors tend to stay longer in the theme park and spend more time in the park restaurants. They also like to maximize photo-taking opportunities, including photo-taking inside the attraction and ride areas. The Management Company has therefore implemented a number of measures, e.g., adding more than 600 seats in the restaurants, bringing in additional mobile food and beverage stalls as well as outdoor benches and seats, adding new photo spots, etc. During peak days, the Management Company would closely monitor park attendance to ensure a smooth and orderly flow of visitors.

On further expansion of the theme park, the Government of the Hong Kong Special Administrative Region (Government) and The Walt Disney Company (Disney) agree to keep up the momentum to develop the theme park

and expand the number of rides and attractions to attract visitors to the theme park. A new attraction, Autopia, will be completed in 2006. Other attractions will continue to be built, having regard to market demand.

The expenditure on the expansion works will be borne by the Hongkong International Theme Parks Ltd (HKITP). The financing arrangement for the HKITP comprises equity injections from both the Government and Disney and also loans from the Government and other commercial institutions. The development and operation of the Hong Kong Disneyland is anticipated to cost HK\$14.1 billion. The portion of government equity injection and loans in this sum were approved by the Finance Committee of this Council in 1999.

HKITP will also have operational receipts which can be used for the further development of the theme park. In future, if HKITP cannot finance the park expansion from the operational receipts or other funding sources and requires government equity injection or loans, this will be put to the Finance Committee of this Council for consideration. Besides, the budget of HKITP is subject to the approval of its Board. Through government board members, we will ensure that resources of HKITP are properly used.

Ends/Wednesday, October 19, 2005

LCQ16:Hong Kong Disneyland area

Following is the question by the Hon Lee Cheuk-yan and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (October 19):

Question:

Will the Government inform this Council of the current area of the park in Hong Kong Disneyland where amusement and catering facilities are provided for the use of visitors (excluding logistics area for providing support to the operation of the park and land designated for expansion and hotel use), and whether this area had been specified in the agreement signed between the Government and the Walt Disney Company in December 1999?

Reply:

Madam President,

The Government of the Hong Kong Special Administrative Region (Government) reached agreement with The Walt Disney Company (Disney) in 1999 to develop the Hong Kong Disneyland. The Government and Disney participate as equity investors in Hongkong International Theme Parks Ltd (HKITP), which develops and operates the Hong Kong Disneyland.

The size of the Phase I site granted to HKITP is about 126 hectares. Both parties have agreed on the areas to be allocated for various uses, which are also spelled out in the land grant document registered with the Land Registry. The area earmarked for the theme park is about 72 hectares. Like all Disney theme parks around the world, the size of the Hong Kong Disneyland covers all the facilities and attractions therein. It includes over 20 attractions in four themed areas; the required backstage area that supports the operation of the theme park; and the area for the expansion of Phase I, e.g. the construction of a new ride, Autopia, has already begun.

The remaining area is for the hotels, including the two existing hotels and the stretch of land between the two hotels for future hotel expansion, and the car parks for visitors.

Both the Government and Disney agree on the need to keep up the momentum of development and expand the number of rides and attractions to attract visitors to the theme park.

Ends/Wednesday, October 19, 2005

LCQ1:Operation of HK Disneyland

Following is the question by the Hon Lau Kong-wah and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (October 26):

Question:

With regard to the operation of Hong Kong Disneyland (HKD) which opened on the 12th of last month, will the Government inform this Council:

- (a) of the average daily attendance of HKD in its first month of operation, and how this compares to the forecast attendance; if the attendance is unsatisfactory, how the relevant authorities will step up promotion of HKD;
- (b) of the respective percentages of local residents, Mainland tourists and overseas tourists among the visitors to HKD;
- (c) of the number of complaints from visitors so far received by the relevant authorities, details of these complaints as well as follow-up actions taken;
- (d) of the total number of breakdowns of the amusement rides in HKD since its opening, details and causes of such breakdowns, and whether they have resulted in any injuries to visitors; and
- (e) whether the HKD authorities will consider offering annual passes at a concessionary price; if not, the reasons for that?

Reply:

Madam President,

(a) & (b) The Hongkong International Theme Parks Ltd (HKITP) has advised that park attendance and visitor mix figures are commercially sensitive information; and it has been the practice of The Walt Disney Company not to disclose such information for its theme parks. As a listed company, The Walt Disney Company will disclose the performance of its theme parks in its annual report.

HKITP is optimistic about the full year attendance. Guest surveys conducted by the Hongkong International Theme Parks Ltd (HKITP) in the first month of operation show that over 80% of the guests have rated the overall experience at Hong Kong Disneyland as very good or excellent. Similarly, over 80% of the Hong Kong Disneyland hotel guests were satisfied with their stay at the hotels and more than half said that they intended to make a return visit.

(c) Up to 21 October 2005, the Tourism Commission and the Hong Kong Tourism Board have received 3 complaints or suggestions from park visitors of the Hong Kong Disneyland. Of these, one case is related to the arrangement of the Rehearsal Days; one case is about ticketing service, and one case is about performance of theme park staff. The complaints have been referred to the management of the Hong Kong Disneyland for follow up and reply.

We have also consulted the Consumer Council, who has advised that it is their policy not to release complaint figures on individual companies.

The day-to-day operation of the Hong Kong Disneyland is the responsibility of the Hong Kong Disneyland Management Ltd (Management Company). According to the Management Company, they have received both compliments and suggestions for improvements. They take these comments seriously and would take follow-up actions. For example, in the light of feedback from visitors during the Rehearsal Days, the Management Company has added more than 600 seats in the restaurants, brought in additional mobile food and beverage stalls as well as outdoor benches and seats, and added new photo spots to meet customers' needs.

(d) The safety of visitors is the top priority of the Management Company. It enforces rigorous safety standards in the planning, maintenance and operation of the attractions; and implements a safety inspection and maintenance programme. According to the statistics of the Management Company, the amusement rides in the theme park are in normal operation more than 99% of the time.

To enable close monitoring of the operation of the amusement rides of the Hong Kong Disneyland, HKITP is required to report all cases of suspension of amusement rides to the Electrical and Mechanical Services Department (EMSD), which will follow up on the reported incidents to ensure the safe operation of the amusement rides. Since the opening of the theme park to the 18th of this month, HKITP has filed 50 reports where the rides were brought to a halt because of technical reasons, or the triggering of the safety protection system due to external interferences or guest behaviour, but no passengers were injured. There were another 6 reports which involved guests reporting feeling sick or having minor injuries which caused the operation of the rides to be temporarily suspended.

(e) The Hong Kong Disneyland is still in its initial operation period and has no plans to offer annual passes at this stage. However, the Management Company will review the visit pattern of guests from time to time and introduce new ticket products having regard to the market situation.

Ends/Wednesday, October 26, 2005

LCQ9: Trees at HK Disneyland

Following is the question by the Hon Choy So-yuk and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (October 26):

Question:

I have received many complaints from the public about mosquito infestation in Hong Kong Disneyland (HKD). They point out that as only non-fruit-bearing trees have been planted in HKD, few birds frequent the place, which does not help control the mosquito problem. In this connection, will the Government inform this Council of:

- (a) the number of trees planted in HKD at present, with a breakdown by their species and whether they are fruit-bearing;
- (b) the preventive measures adopted in HKD against mosquito infestation; and
- (c) the number of complaints by visitors to HKD authorities about mosquito bites so far, and the details of the complaints?

Reply:

Madam President,

According to the Hong Kong Disneyland Management Limited (Management Company), there are about 18,000 trees in the Hong Kong Disneyland and its hotels, of which 70% are flowering trees that are fruit-bearing. There are altogether about 150 species, including *Tamarindus indica*, *Gnetum gnemum*, *Artocarpus* species, *Syzygium jambos*, *Syzygium cumini*, *Feijoa sellowiana*, *Illicium verum*, *Sterculia monosperma*, *Dillinia indica*, *Pongamia pinnata*, *Mimusop elengi*, *Terminalia catappa*, *Tabebuia* species, *Garcinia subelliptica*, etc. According to the Food and Environmental Hygiene Department, the main cause of mosquito infestation is water accumulation and not the species of trees.

We understand from the Management Company that they have implemented an active pest monitoring and control programme since July 2005 to improve the sanitary condition. This programme includes measures such as installation of mosquito traps, regular monitoring of fluctuations in pest population, frequent checking of any accumulation of stagnant water and elimination of all potential mosquito breeding grounds. These measures have proved to be effective.

For public areas in the vicinity of the theme park, the Food and Environmental Hygiene Department is carrying out regular mosquito control measures which include the clearing of stagnant water and other potential mosquito breeding grounds, and the application of insecticide or larvicidal oil as necessary.

Since the opening of the Hong Kong Disneyland, the Management Company has received four cases of pest-related complaints. No complaints have been received over the past three weeks. The Management Company observes that the implementation of the pest monitoring and control programme has been effective in dealing with mosquito infestation.

Ends/Wednesday, October 26, 2005

LCQ 10: Public transport services for Hong Kong Disneyland

Following is a question by the Hon Leung Yiu-chung and a written reply by the Secretary for the Environment, Transport and Works, Dr Sarah Liao, at the Legislative Council meeting today (October 26):

Question:

Currently, visitors to Hong Kong Disneyland (HKD) can use the Mass Transit Railway, franchised buses, non-franchised buses and taxis, but not green and red minibuses. In this connection, will the Government inform this Council:

- (a) whether the present public transport arrangements can effectively cater to the flows of visitors travelling to and from HKD;
- (b) of the reasons for forbidding some public transport service operators from operating routes to and from HKD; whether it has assessed if this practice is fair, and if it will result in relatively high fares for trips to and from HKD; if so, of the outcome of the assessment; if not, the reasons for that; and
- (c) whether it plans to change the decision so as to enhance competition, offer visitors to HKD more choices and create additional job opportunities; if so, of the details of the plan; if not, the reasons for that?

Reply:

Madam President,

Currently, public transport services available to visitors to Hong Kong Disneyland (HKD) include railway, franchised buses, non-franchised buses, taxis as well as cross-boundary coaches for visitors from the Mainland. Transport arrangements for HKD were formulated before the commissioning of HKD based on the estimated number of visitors, passengers surveys, existing transport and traffic network and other transport statistics. The public transport demand to and from HKD is mainly recreational in nature and concentrate at the peak hours in the morning and evening. In order to accommodate the projected pattern of passenger demand, mass carriers with higher passenger capacity are necessary for provision of services to and from HKD. While planning for the transport arrangement for HKD, we have therefore included railway, a mass carrier, as the major service provider, to be supplemented by franchised buses, non-franchised buses and taxis.

Franchised buses provide convenient and efficient mass transit service to and from HKD. Non-franchised buses can meet the demand of particular groups of passengers (for instance, organised tour groups). Taxi provide convenient, personalised, and point-to-point services, especially for visitors who are not familiar with local public transport. As for public light buses (PLBs), according to our existing transport policy, the primary function of green minibuses is to provide regular transport services to supplement and serve as feeders to the mass carriers, serve areas where demand does not justify the provision of high capacity services. Red minibuses, on the other hand, provide a relatively flexible service within their existing service areas. Taking into account the mode of passenger demand of HKD, the passenger capacity and operating efficiency of PLBs are relatively low when compared with mass carriers such as railways and buses. Based on the principle of efficient use of transport service resources, we currently consider that there is no need to arrange PLB service to serve HKD.

In fact, we have been monitoring closely the passenger demand of HKD since its commissioning on September 12 2005, including the period during festival days and holidays such as Mid-autumn Festival and the National Day "Golden Week". The service levels and daily passengers throughput of various modes of transport show that the existing public transport services have surplus capacity, demonstrating that the public transport services to and from HKD is adequate and can effectively cater to the flows of visitors to HKD.

Besides, the various public transport modes offer a wide selection of transport services to HKD's visitors. There is competition both in terms of service quality and fare, providing the public with multiple and reasonable choices. We will continue monitoring the public transport services to and from HKD and make adjustment when necessary.

Ends/Wednesday, October 26, 2005

LCQ11: Non-local staff in HK Disneyland

Following is the question by the Hon Chan Yuen-han and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (November 2):

Question:

Regarding the non-local staff recruited by the Hong Kong Disneyland (HKD), will the Government inform this Council:

- (a) of the current number of such staff, together with breakdowns by the positions taken up by them and in accordance with the table below; and

The type of labour importation scheme under which employment visas were granted	Number of staff
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General Policy on Entry for
Employment

Admission Scheme for Mainland
Talents and Professionals

Admission of Mainland Students
Graduated

from University Grants Committee-
funded Institutions in Hong Kong
Supplementary Labour Scheme

Foreign Domestic Helpers

- (b) whether, before recruiting these non-local staff, HKD has conducted any local recruitment exercise and adopted the principle of according priority of employment to local residents; if not, of the reasons for that?

Reply:

Madam President,

- (a) According to the Hongkong International Theme Parks Ltd (HKITP), the breakdown of their non-local staff is as follows:

<u>The type of labour importation scheme under which employment visas were granted</u>	<u>Number of staff</u>	<u>Position</u>
General Policy on Entry for Employment	200	Senior management staff & performing entertainers
Admission Scheme for Mainland Talents and Professionals	10	Performing entertainers
Admission of Mainland Students Graduated from University Grants Committee-funded Institutions in Hong Kong	0	
Supplementary Labour Scheme	0	
Foreign Domestic Helpers	0	

- (b) HKITP has advised that their employment policy is to recruit in Hong Kong, with priority given to qualified local applicants. HKITP has about 4,900 staff members, and over 95% of them are recruited locally.

Most of their non-local staff members are performing entertainers engaged in very type-specific roles, e.g. fire/knife dancers and "Festival of the Lion King" vocalists. HKITP considers that it is a challenge to hire a large number of performing entertainers simultaneously to meet the requirement of a newly-opened theme park. HKITP first conducted their recruitment exercise for every performing role in Hong Kong, with recruitment priority given to qualified local performers. HKITP would only recruit in other places for roles which they have been unable to successfully cast in Hong Kong.

Ends/Wednesday, November 2, 2005

LCQ18: Financial arrangements for Hong Kong Disneyland

Following is a question by the Hon Emily Lau Wai-hing and a written reply by the Secretary for Financial Services and the Treasury, Mr Frederick Ma, in the Legislative Council today (November 2):

Question:

In December 1999, the Government and The Walt Disney Company set up a joint venture company to establish Hong Kong Disneyland ("HKD"), with a shareholding ratio of 57:43. Regarding the financial arrangements for HKD, will the Executive Authorities inform this Council:

- (a) apart from spending \$13.7 billion on the reclamation and infrastructure works, as well as injecting \$3,250 million into the joint venture company and providing it with a loan of \$6.1 billion, of the amount of each item of expenditure incurred so far by the Government in building HKD and associated facilities (including cleaning up the contaminated soil at Penny's Bay, compensating the fishermen affected and injecting funds into the MTR Corporation Limited for the construction of the Disneyland Resort Line);
- (b) whether they will brief this Council on the detailed accounts in respect of the construction and operation of HKD and other relevant information, including the operating cost, daily attendance, income generated from the sale of merchandise and other incomes; if not, the reasons for that; and
- (c) whether they have assessed if there is any conflict in the Government's roles as the rule-setting authority for the market on the one hand, and as a market participant for being the majority shareholder of a private company on the other; if there is conflict, how the authorities intend to address it and whether they will sell the Government's shares in the joint venture company through listing; if there is no conflict, the rationale for that?

Reply:

Madam President,

- (a) The major capital spending that the Government has committed so far in connection with the construction of the Hong Kong Disneyland includes the following -

<u>Capital Works Reserve Fund</u>	<u>Estimated Total Spending \$ Billion</u>
	13.6
(1) Reclamation and other infrastructure works (including, for example, connecting road works, costs of construction of Inspiration Lake Recreation Centre, expenses for cleaning up of the dioxin contaminated soil, and the compensation payable to affected fishermen)	
(2) Land acquisition and clearance compensation	1.6
 <u>Capital Investment Fund</u>	
(3) Equity injection of \$3,250 million into Hong Kong International Theme Park Limited (HKITP)	3.3
(4) Loan to HKITP (including the capitalised interest)	6.1

Apart from the above, the Government has also waived its claim of some \$931 million in dividend that would otherwise be payable to the Government by the MTR Corporation Limited, as financial support to the Penny's Bay Rail Link (now known as "Disneyland Resort Line") under the Project Agreement entered into with the MTR Corporation Limited on 24 July 2002.

- (b) The Walt Disney Company (TWDC) is a commercial enterprise. Although it invests jointly with the Government in the HKITP, the Government has to respect the company's interests as an investor and its operation under commercial principles will not be compromised due to the disclosure of commercially sensitive information. As the park attendance figures are commercially sensitive information, it has been the practice of TWDC not to disclose such information for its theme park. As a listed company, TWDC will disclose the performance of its theme parks in its annual report.
- (c) The Government's policy has been that it will not invest in a business venture, unless it is for important policy reasons and there is no other alternative investor available from the private sector. All the investments made by the Capital Investment Fund are required to be approved by the Finance Committee of the Legislative Council.

The Government's decision to invest in the Hong Kong Disneyland project has been based on the assessment of the likely long-term economic benefits to Hong Kong. It is also in line with our vision to develop Hong Kong into a premier destination for family tourists in the region. Recognising the substantial economic contribution that a Disney theme park could bring to Hong Kong, Government started the formal negotiations with TWDC in 1999. The agreement between Hong Kong Special Administrative Region Government and TWDC has been drawn up based on the principle that the Government's ability to exercise its statutory powers, discretions and duties shall not be fettered in any way.

In the long run, the Government may consider in the light of the "Big Market, Small Government" principle to divest its shareholdings in the company at an appropriate time when it is in the overall economic interests of Hong Kong to do so.

Ends/Wednesday, November 2, 2005