

ITEM FOR FINANCE COMMITTEE

CAPITAL INVESTMENT FUND

HEAD 973 – TOURISM

Subhead 101 Equity in Hongkong International Theme Parks Limited

Subhead 102 Loan to Hongkong International Theme Parks Limited

Members are invited to approve an increase in Government's equity in the Hongkong International Theme Parks Limited (HKITP), through conversion of part of an existing loan from the Capital Investment Fund (CIF) to HKITP, subject to the balance of the remaining loan not falling below \$1,000 million after the proposed conversion, to allow the company to implement a package of arrangements relating to the expansion and operation of Hong Kong Disneyland.

PROBLEM

Government has reached agreement with The Walt Disney Company (TWDC), subject to the approval of the Legislative Council, to implement a package of arrangements relating to the expansion and operation of Hong Kong Disneyland (HKD). As part of the agreement, Government needs to convert a substantial part of an existing loan from the Capital Investment Fund (CIF) to HKITP into equity in the company.

PROPOSAL

2. The Commissioner for Tourism, with the support of the Secretary of Commerce and Economic Development, recommends that Members approve an increase in Government's equity in HKITP, through conversion of part of an existing loan to HKITP, subject to the balance of the remaining loan not falling below \$1,000 million after the proposed conversion.

JUSTIFICATION

Proposed Expansion for HKD

3. As a key component of Hong Kong's tourism landscape, strengthening HKD's appeal to visitors is crucial to long-term tourism development in Hong Kong, especially amidst fierce competition in the region on the tourism front. Government and TWDC firmly believe that the expansion will help broaden the park's appeal to different market segments, especially young adults. Moreover, the expansion will act as a catalyst in improving the park's operating and financial performance.

4. TWDC's expansion proposal comprises three new themed areas, namely "Grizzly Trail", "Mystic Point" and "Toy Story Land" (working titles), with a total land-take of about 23% of the area of the existing theme park. There would be more than 30 new attractions, bringing the total number of attractions in HKD to over 100. Government has sought and secured TWDC's assurance that "Grizzly Trail" and "Mystic Point" will be exclusive to HKD amongst Disney theme parks worldwide and "Toy Story Land" will be exclusive amongst Disney theme parks within the Asian region at the time of their respective opening. Moreover, the combination of key storylines and technological elements of "Grizzly Trail" and "Mystic Point" will not be substantially repeated in any other Disney theme park worldwide, and those of "Toy Story Land" will not be substantially repeated in any other Disney theme park in Asia, in each case within five years from their respective opening.

Encl. 1 5. TWDC estimates that the expansion plan would cost \$3.63 billion. A breakdown of the cost estimates is at Enclosure 1. The new attractions are expected to be completed in phases within five years by 2014.

Financial arrangements relating to the expansion and operation of HKD

6. TWDC will contribute all the necessary new capital (currently estimated to be \$3.5 billion¹) as equity for the construction of new attractions as well as for sustaining the park's operation during the construction years, and convert the entire outstanding balance of the TWDC loan (projected to be \$2.76 billion including the amount drawn from the revolver) to equity. In total, TWDC will inject about \$6.25 billion as equity. To cater for unforeseen cash flow requirements during the construction years, a revolving credit facility of \$300 million provided by TWDC will be retained.

¹ The difference between the project cost of \$3.63 billion and the amount of new capital to be injected by TWDC of \$3.5 billion is expected to be bridged by the cash flow generated from the park's operation during the construction years.

7. Government will not inject any new capital for the expansion. To contribute to the deleveraging of HKITP while maintaining Government's majority shareholding in the joint-venture, we propose to progressively convert part of the Government loan to equity to match, on a dollar to dollar basis, the new capital contribution and loan conversion by TWDC, subject to the Government retaining a loan balance of not less than \$1 billion. The amount of Government loan to be converted over the construction years is estimated to be about \$6.25 billion.

8. According to current projections, upon the aforementioned capital injection by TWDC and conversion of the Government and TWDC loans, Government would continue to be a majority shareholder of HKITP with ownership of about 52%. The present composition of the HKITP Board of Directors, which comprises five and four directors nominated by Government and TWDC respectively, and two independent non-executive directors as agreed by the shareholders, will remain unchanged. In accordance with the arrangement approved by FC in 1999, the \$4 billion subordinated shares that represented the land premium of the Phase 1 site could be converted to ordinary shares progressively following the park expansion, to the extent that the park's performance exceeds the agreed benchmarks.

Revised financial arrangements for improving the operation of HKD

9. HKD is managed by a subsidiary of TWDC. Government and TWDC have agreed to revise the formula for calculating the base management fee payable to the management company so as to link it to the park performance, i.e. to replace the current formula of 2% of gross revenue with 6.5% of earnings before interest, tax, depreciation and amortisation (EBITDA). The formula for payment of the variable management fee will be revised from 2-8% of EBITDA to 0-8% of EBITDA. A mechanism has also been agreed such that payment of royalties to TWDC's related company/licensor by HKITP would be deferred in the event that HKD's financial performance is hampered by adversity. With a view to preserving cash flow under such circumstances, the payment of interest and principal of the retained Government loan will also be deferred.

Control Mechanism

10. Government will monitor the implementation of the proposed expansion of HKD and continue to supervise the management and operation of HKD through the Board of Directors of HKITP. As explained in paragraph 8 above, the composition of the Board will remain unchanged after the capital realignment. The transparency of HKD's operation will be enhanced through the disclosure of key operating and financial results of HKD on an annual basis starting with the operation year of 2008-09. The items to be disclosed include annual park attendance, revenues, cost and expenses, EBITDA, depreciation and amortisation,

net profit/(loss), net assets/liabilities etc. In addition, the Commissioner for Tourism and Tourism Commission will continue to maintain close oversight of the project through regular dialogue with the management company and TWDC as appropriate.

Economic benefits

The past three operation years of HKD (2005-06 to 2007-08)

11. From HKD's opening in September 2005 to end-May 2009, cumulative attendance has exceeded 17 million. In the past three operation years, attendance was about 13.8 million. Survey data from the Hong Kong Tourism Board indicated that these visitors to HKD have generated an additional spending of HK\$17 billion in Hong Kong, over and above what would have been spent without the theme park. Taking into account both the direct and indirect value added generated from these additional spending, HKD has brought about HK\$10 billion of value added to the Hong Kong economy in the past three years. This has raised GDP by an average of 0.2% each year. The additional spending of visitors to HKD has created more than 10 000 jobs in terms of man-years in each of the past three years, providing considerable job opportunities for workers in the lower segment.

Economic assessment (projection)

12. TWDC has made two sets of projection on attendance at the expanded HKD (used in "Case 1A" and "Case 1B" below). Based on past data and some broad assumptions, Government has made a separate set of projections on HKD's attendance (used in "Case 2" below). The economic benefits of the expanded HKD for the above three cases have been studied. In respect of "Case 1A", the present value of net economic benefits is estimated at \$59.2 billion at 2008 prices over a 20-year operation period (by 2024-25), and \$117.3 billion over a 40-year operation period (by 2044-45), with average annual real economic rates of return of 17.7% and 18.6% respectively. The corresponding present values of net economic benefits for "Case 1B" are \$51.4 billion for a 20-year operation period and \$98.4 billion for a 40-year operation period. The corresponding average annual real economic rates of return are 17.0% and 17.8% respectively for the two operation periods.

13. In "Case 2", the HKD project would bring about net economic benefits of \$23.9 billion at 2008 prices in present value terms over a 20-year operation period, with an 11.9% average annual real economic rate of return. Over a 40-year operation period, the present value of net economic benefits at 2008 prices would be \$64.7 billion and the average annual real economic rate of return 13.7%.

14. TWDC estimates that the construction of the park expansion would create about 3,700 jobs in terms of man-years between 2009 and 2014, and another 600 full-time equivalent jobs in HKD after the completion of the expansion. Government estimates that the total number of jobs (in terms of man-years) created in the economy stemming from additional spending of HKD visitors would range from 20,600 in “Case 2” to 38,400 in “Case 1A” in 2024-25.

Encl. 2 15. The results of Government Economist’s assessment of the economic benefits of an expanded HKD are outlined in Enclosure 2.

FINANCIAL IMPLICATION

16. According to the plan and on the basis of current projections, following the conversion of part of the Government loan, Government would continue to maintain a majority shareholding of 52% in HKITP.

17. The estimated return on Government’s existing equity and new equity after loan conversion is about 5% if “Case 1A” is achieved. Under the more conservative scenario of “Case 1B”, Government’s return on its investment is about breakeven.

18. The forecast schedule of injection of new capital as equity by TWDC and loan conversion by TWDC and Government is as follows –

	Injection of new capital as equity by TWDC \$ million	Loan conversion by TWDC \$ million	Loan conversion by Government \$ million
2008-2009	212	2,763	2,975
2009-2010	901	-	901
2010-2011	1,437	-	1,437
2011-2012	941	-	938
2012-2013	-	-	-
2013-2014	-	-	-
Total	3,491	2,763	6,251

Encl. 3 The capital structure of HKITP before and after implementation of the expansion is set out in Enclosure 3. There would be some adjustments in the capital structure and the actual conversion schedule, depending on the interest rate applicable to the Government loan, progress of construction, and the company’s operating cash flow during the construction years.

PUBLIC CONSULTATION

19. We briefed the Legislative Council Panel on Economic Development (ED Panel) on 30 June 2009 and 4 July 2009 on the proposal, amongst other aspects of the agreement reached between Government and TWDC. Members had no objection to the submission of the proposal to the Finance Committee (FC) for approval of the proposed loan-to-equity conversion outlined in paragraph 7. Some Members considered the proposed expansion as the only way to enhance the appeal and competitiveness of HKD and hence supported the proposed loan-to-equity conversion. Others expressed serious concerns over the non-availability of data on HKD's operations in particular the historical financial performance for Members' consideration. A further ED Panel meeting will be held on 10 July 2009.

BACKGROUND

20. In 1999, Government and TWDC provided \$3.25 billion and \$2.45 billion respectively as equity to establish HKITP. Currently, Government's and TWDC's shareholding in HKITP are 57% and 43% respectively. Government also provided \$5.62 billion as loan to the joint venture. In accordance with the agreement, the Government loan is scheduled for repayment over 25 years from the park's opening with the repayment of principal starting in the 11th operating year, i.e. 2015-16. As at mid July 2009, taking account of the capitalised and deferred interest of \$1.27 billion, the outstanding balance of the Government loan is estimated to be \$6.89 billion.

21. HKITP also obtained a commercial term loan of \$2.3 billion and a revolving credit facility of \$1 billion in 2000². In September 2008, the shareholders reached agreement to replace the above loan and revolving credit facility by a loan from a subsidiary company of TWDC.

22. Government's total spending on the reclamation of the Phase 1 site, associated infrastructure and provision of government, institution and community facilities amounted to \$10.57 billion. This figure is lower than the \$13.6 billion approved by the Finance Committee (FC) in November 1999, mainly because of an overall reduction (\$1.65 billion) in the project cost, and the removal of the reclamation cost of the Phase 2 site (\$1.38 billion). Government received \$4 billion in subordinated shares, representing the land premium of the Phase 1 site. Separately, Government paid a land acquisition and clearance cost of \$1.506 billion for the purpose of acquiring about 18.7 hectares of land by voluntary surrender of a shipyard site.

² The revolving credit facility was changed to \$800 million in November 2007.

23. To support the construction and operation of the Disneyland Resort Line, Government also waived its claim of \$931 million in dividend that would otherwise be payable to Government by MTRC to bridge the funding gap identified for the railway.

24. HKD was opened in September 2005, and consists of a theme park and two hotels. The site of HKD amounts to 125.4 hectares (ha), of which 72 ha are deployed for theme park, retail, dining and entertainment uses (the rest of the site is for hotel and car park uses). The theme park now provides four themed areas³.

Tourism Commission
Commerce and Economic Development Bureau
July 2009

³ Fantasyland, Tomorrowland, Adventureland and Main Street, USA.

Breakdown of Project Cost for Hong Kong Disneyland Expansion Plan

Item	Cost estimates (\$ Million)	Remarks
Facility	1,264	Includes but not limited to: buildings/structures, landscape and site utilities
Show	865	Includes but not limited to: media, audio/visual systems, special effects, props, animated figures, show control, graphics, show sets, and other show elements of themed environment
Ride	755	Includes but not limited to: ride engineering, ride vehicles and track, security/surveillance systems, ride controls, mechanical/electrical systems in support of ride equipment, and ride installation
Design costs	550	Includes creative and architecture/facility engineering costs
Management and Field costs	162	Includes project management, construction management, travel/relocation and general requirements/field office expense
Operational requirements	34	Pre-opening operations requirements
Total	3,630	

Updated Economic Assessment of the Hong Kong Disneyland (HKDL) Project

Introduction

The Government has updated the economic assessment of the Hong Kong Disneyland (HKDL) project (Phase I), which includes also the expansion currently proposed by the Walt Disney Company (TWDC). The economic costs and benefits for three scenarios have been studied, the first two based on TWDC's "Base case" attendance projection (hereinafter referred to as "Case 1A") and "Slower tourism case" attendance projection ("Case 1B"), and the third based on the Government's own attendance projection ("Case 2").

Methodology

2. The assessment framework is broadly similar to that of the assessment made in 1999. The quantifiable economic benefits of the HKDL stem from the *additional* spending in Hong Kong by visitors to the theme park. The methodology involves *firstly* projecting the level and composition of visitors to the HKDL, *secondly* estimating the additional spending of these visitors in Hong Kong, and *thirdly* assessing the value added or income, as well as additional employment, that can be generated by such additional spending.

3. For analytical purpose, the visitors to HKDL could be grouped into two categories, namely local visitors and tourists. The latter could be further broken down into *base tourists* (i.e. who would have visited Hong Kong even without the HKDL project but will spend additional time in Hong Kong to visit the HKDL) and *induced tourists* (i.e. tourists whose main purpose of coming to Hong Kong is to visit HKDL).

4. The additional spending in Hong Kong by visitors to the HKDL covers spending not only within the theme park, but also elsewhere in Hong Kong, over and above what would have been spent without the theme park. The *gross* economic benefits or value added thus derived from this additional spending are calculated in accordance with the specific operating cost structure of the sectors concerned. This value added comprises direct value added and indirect value added. Direct value added represents the gains of the respective business establishments and employment income for the workforce involved, generated initially from additional spending of the HKDL visitors in Hong Kong. The sectors of economic activity concerned are the theme park operation itself, as well as the retail, hotel, restaurant, transport and other tourism-related industries in the territory, and the local airlines. Indirect value added refers to the incomes generated from subsequent rounds of indirect spending on the

further range of economic activities in support of these tourism-related sectors. The *net* economic benefits of the HKDL project are then obtained by matching the gross economic benefits against the economic costs of putting the HKDL theme park in place, which include both the capital expenditure for the theme park as well as the land formation and infrastructure costs.

Input parameters and results

(a) Attendance and spending

5. TWDC has provided attendance projection for two scenarios, namely the “Base case” and “Slower tourism case”, which have been used in “Case 1A” and “Case 1B” respectively. TWDC first made assumptions on the share of population in the overseas markets that have a certain level of income which allows them to travel to Hong Kong, and then made assumptions for the proportion of these tourists that would visit HKDL. In addition to the total number of visitors to the theme park, TWDC has also given the split of these visitors by market as well as by type of visitors (i.e. base tourists, induced tourists and local visitors). In developing its detailed long-term demand model, TWDC used a variety of data sources, including third party projections (including World Tourism Organisation, Euromonitor, and Global Insight), historical tourism figures from the Hong Kong Tourism Board, and Disney’s own internal survey data.

6. When projecting the input parameters for “Case 2”, the Government has taken into account the following information:

- (1) The actual number and additional spending of the base and induced tourists visiting the HKDL in (financial year) FY 2006 to FY 2008, as estimated from survey data compiled by the Hong Kong Tourism Board (HKTB). These historical figures are then used, with suitable adjustment, for projecting the future penetration rates¹ and per diem spending for base and induced tourists. As to the number of local visitors and their spending, the historical data for FY 2006 to FY 2008 provided by TWDC are made use of when projecting the future trend;
- (2) the current economic environment, including the possible effect of the global financial tsunami on the total number of tourists visiting Hong Kong in the near term; and
- (3) the impacts of the expected demographic changes in Hong Kong over the next 30 years or so and the increasingly closer economic integration with the Mainland, and possible challenges posed by intense competition within the region, including those challenges stemming from the potential Disneyland in Shanghai.

¹ Penetration rate for different types of visitor refers to the proportion of the market (tourists to Hong Kong or local residents) that would visit HKDL.

7. The major assumptions used in all the three cases are given in **Table 1** below.

Table 1: Major parameters in assessment (FY 2009 – FY 2045)

	Case 1A ^(a) <u>(FY 2009 to FY 2026)</u>	Case 1B ^(a) <u>(FY 2009 to FY 2026)</u>	Case 2 <u>(FY 2009 to FY 2045)</u>
Projected average annual growth rate of total tourists to Hong Kong	4.4%	2.2%	4.6%
Market penetration rate ^(b)			
Base tourists	7.6% to 11.7% (c)	7.5% to 12.0% (c)	6.0% to 8.7% (e)
Induced tourists	3.6% to 5.2% (c)	3.6% to 5.3% (c)	1.8% to 2.7% (f)
Locals	25.2% to 27.5% (d)	25.2% to 27.4% (d)	21.2% to 25.4% (d)
Additional length of stay for base tourists (nights)	0.7	0.7	0.7
Crowding-out effect on spending by local visitors ^(g)	50%	50%	50%

Notes:

- (a) TWDC does not provide market penetration rates for years beyond FY 2026.
- (b) Projected from the demand side. Capacity constraint of the theme park has not yet been taken into account.
- (c) Figures refer to the respective proportion of *total* tourists to Hong Kong that would visit HKDL.
- (d) Figures refer to the proportion of local population that would visit HKDL.
- (e) Figures refer to the proportion of base leisure tourists out of total leisure tourists to Hong Kong that would visit HKDL.
- (f) Figures refer to the proportion of induced tourists out of total leisure tourists to Hong Kong that would visit HKDL.
- (g) The extent of reduction in consumption spending on items not related to HKDL theme park, in terms of percentage of additional spending due to HKDL theme park.

(b) Economic costs

8. The economic costs include the land formation and infrastructure costs, and capital expenditure for the theme park. The land formation and infrastructure costs are estimated by the Civil Engineering and Development Department, and are adopted for all the three cases.

9. TWDC has produced two sets of projection for capital expenditure for the theme park, one corresponding to the “Base case” attendance projection and the other for the “Slower tourism case”, as the required timing and the level of new capital investment would naturally differ under different projections of visitors to HKDL². These two sets of projection have been respectively adopted in “Case 1A” and “Case 1B”. As the attendance projection in “Case 2” is closer to TWDC’s attendance projection in the “Slower tourism case”, the capital investment in “Case 2” is based on TWDC’s “Slower tourism case”.

10. Taking all the components together, the sum of capital cost amounts to HK\$25.7 billion at 2008 prices in present value terms for “Case 1A”, and HK\$24.8 billion for both “Case 1B” and “Case 2” (Appendix I).

Assessment results

The past three financial years of the HKDL (FY 2006 – FY 2008)

11. From HKDL’s opening to end-May 2009, cumulative attendance has exceeded 17 million. In the past three financial years, attendance was about 13.8 million, of which about 8.6 million or three-fifths were tourists, and about 5.2 million or two-fifths were local visitors. Among the tourists to HKDL, almost 2 million were induced tourists, while the rest were base tourists. The length of stay and average spending of these base and induced tourists to HKDL are based on actual survey data compiled by the Hong Kong Tourism Board. According to survey findings, additional spending in Hong Kong of tourists visiting HKDL had amounted to HK\$16 billion for these three years taken together. The boost to tourist spending was about 5 percentage points each year. The additional spending of local visitors is derived from the in-park survey data provided by TWDC. Taken together, total additional spending in Hong Kong of all visitors to HKDL amounted to about HK\$17 billion in the past three financial years. Taking into account both the direct and indirect value added generated from the additional spending of all visitors to HKDL, the theme park has brought a cumulative total of about HK\$10 billion of value added to the Hong Kong economy. This has raised the GDP by an average of 0.2% each year, and has created more than 10 000 jobs in terms of man-years in each of the past three years, with considerable job opportunities for workers in the lower segment. The above findings are summarised in **Table 2**.

² With different capital expenditure for the “Base case” and “Slower tourism case”, the resulting capacity constraints of the theme park under the two cases are also different.

Table 2: Summary of the results after HKDL's opening

	Actual
Attendance	Over 17 million (from opening to end-May 2009) About 13.8 million (FY 2006 – FY 2008)
Additional length of stay of base tourists	0.7 night (average in FY 2006 – FY 2008)
Length of stay of induced tourists	2.8 nights (average in FY 2006 – FY 2008)
Additional spending of tourists to HKDL	About HK\$16 billion (FY 2006 – FY 2008)
Additional spending of all visitors to HKDL	About HK\$17 billion (FY 2006 – FY 2008)
Value added brought to the Hong Kong economy	About HK\$10 billion (FY 2006 – FY 2008) (raising GDP by an average of 0.2% each year)

Economic assessment (projection)

(a) “Case 1A”

12. According to TWDC's projection, in “Case 1A” total attendance to HKDL is expected to rise to 10.7 million in FY 2021 and be bounded by the capacity constraint at 11 million from FY 2022 onwards.

13. Net of the economic costs involved, the present value of net economic benefits is estimated at around HK\$117 billion at 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$59 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 18.6% and 17.7% respectively for the two operation periods.

(b) “Case 1B”

14. According to TWDC's projection, in “Case 1B”, total attendance to HKDL would rise to 9.2 million from FY 2026 onwards.

15. The present value of net economic benefits is estimated at around HK\$98 billion at 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$51 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 17.8% and 17.0% respectively for the two operation periods.

(c) “Case 2”

16. According to the Government’s projection, in “Case 2” total attendance to HKDL would increase to 7.3 million in FY 2025 and further to 10.1 million in FY 2039, and be capped by the capacity constraint of the theme park at 10.2 million for FY 2040 and onwards (Appendix II).

17. The present value of net economic benefits is estimated at around HK\$65 billion in 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$24 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 13.7% and 11.9% respectively for the two operation periods. The assessment results for all the three scenarios are summarized in **Table 3** below.

Table 3: Summary of assessment for the three cases

	Total gross economic benefits (HK\$2008 prices in present value)		Total net economic benefits (HK\$2008 prices in present value)		Economic rate of return in real terms		Benefit/cost ratio in present value terms		Year when attendance reaches capacity	Breakeven year@
	over operation period of		over operation period of		over operation period of		over operation period of			
	40 years	20 years	40 years	20 years	40 years	20 years	40 years	20 years		
Case 1A	143.0 bn	83.9 bn	117.3 bn	59.2 bn	18.6%	17.7%	5.6	3.4	FY 2022	FY 2011 (6 years)
Case 1B	123.2 bn	74.6 bn	98.4 bn	51.4 bn	17.8%	17.0%	5.0	3.2	–	FY 2011 (6 years)
Case 2	89.5 bn	47.1 bn	64.7 bn	23.9 bn	13.7%	11.9%	3.6	2.0	FY 2040	FY 2013 (8 years)

Note: (@): “Breakeven year” refers to the year taken from opening for economic payback (i.e. when the cumulated gross economic benefits just offset the cumulated total economic cost).

Employment creation

(a) Construction

18. According to TWDC, expansion of the HKDL involves capital expenditure of HK\$3.3 billion at 2008 prices during the construction period FY 2009 – FY 2014. TWDC estimates that employment generated from the above capital expenditure would be about 3 700 man-years, which include about 740 man-years for professional/technical labour and about 2 960 man-years for other labour.

(b) Operation

19. The additional spending in Hong Kong from both tourists and local residents visiting HKDL would also generate local employment. With reference to the structure of the Hong Kong economy and assuming that labour productivity remains unchanged, the number of jobs created from these additional spending during the operation stage has been estimated. Under “Case 1A”, the number of jobs (in terms of man-years) created in the economy would increase gradually from about 14 100 in FY 2009 to about 38 400 in FY 2022 and stay constant thereafter as attendance will have reached capacity. Under “Case 1B”, the number of jobs (in terms of man-years) created would increase to about 31 100 in FY 2025 and 31 500 in FY 2045 respectively (both in terms of man-years). The corresponding figures for “Case 2” would be 20 600 in FY 2025 and 31 300 in FY 2045 respectively (both in terms of man-years).

Conclusion

20. The economic assessment indicates that the HKDL project (Phase I) is likely to bring about considerable net benefits to the economy, mainly from additional tourist spending in Hong Kong, after netting out the economic costs of capital expenditure involved.

21. It should be noted that long-term economic assessment of this nature is inevitably subject to a range of uncertainties, as many parameters used in the assessment may turn out to be different from the assumptions. For example, the number of visitors to HKDL and the benefits thus generated depends a lot on how successful the HKDL could run the theme park, which is in fact difficult to predict from the macro perspective. To what extent future regional competition could impact on the number of visitors to HKDL is also highly uncertain at the present juncture. On the other hand, if the number of tourists turns out to be higher than projected, the actual theme park attendances and hence the additional economic benefits they entail could also be higher.

Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
July 2009

Appendix I to FCR(2009-10)39

Capital expenditure on land formation, infrastructure and superstructure, as well as facilities for the HKDL theme park (Phase I) at 2008 prices and in present value terms

FY	Land formation and infrastructure	Capital expenditure for the theme park[^]		Total economic costs⁺	
	costs[@] (HK\$ bn)	Case 1A (HK\$ bn)	Case 1B and Case 2 (HK\$ bn)	Case 1A (HK\$ bn)	Case 1B and Case 2 (HK\$ bn)
2000	0.74	0.02	0.02	0.77	0.77
2001	2.03	0.13	0.13	2.16	2.16
2002	2.43	0.61	0.61	3.05	3.05
2003	1.99	1.65	1.65	3.64	3.64
2004	1.56	2.91	2.91	4.47	4.47
2005	0.75	3.20	3.20	3.94	3.94
2006	0.28	0.48	0.48	0.75	0.75
2007	0.09	0.41	0.41	0.50	0.50
2008	0.03	0.15	0.15	0.18	0.18
2009	0.02	0.22	0.22	0.24	0.24
2010	0.01	0.48	0.48	0.49	0.49
2011	0.01	0.71	0.71	0.73	0.73
2012	-	0.54	0.54	0.54	0.54
2013	-	0.14	0.14	0.14	0.14
2014	-	0.04	0.04	0.04	0.04
2015	-	0.03	0.03	0.03	0.03
2025	-	0.18	0.11	0.18	0.11
2035	-	0.07	0.06	0.07	0.06
2045	-	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.04</u>
2000 – 2045	9.94	15.74	14.85	25.68	24.79

Notes (@): Based on figures from CEDD.

(^): Based on figures from TWDC.

(+): Sum of figures shown may not be the same as the total figures shown, due to rounding.

Appendix II to FCR(2009-10)39

Attendance projections

	<u>Case 1A</u>	<u>Case 1B#</u>	<u>Case 2</u>
	('000)	('000)	('000)
Total attendance			
FY 2015	8 356	7 924	5 211
FY 2025	11 000*	9 120	7 306
FY 2035	11 000*	9 194	9 708
FY 2045	11 000*	9 194	10 200*

Notes (*): Attendance is capped by the capacity constraint.

(#): In developing the long-term projections for Case 1B, TWDC used a simplifying approach, assuming that the park attendance would reach a certain level by FY 2026 and remain flat thereafter.

Current and Projected Capital Structure of HKITP

	Government (\$ billion)	TWDC (\$ billion)	Total (\$ billion)
Capital structure as of July 2009:			
Ordinary equity	3.25 (57%)	2.45 (43%)	5.70
Subordinated equity	4.00	-	4.00
Loan	6.89	2.76	9.65
Projected capital structure after completion of park expansion :			
Ordinary equity	9.50 (52%)	8.70 (48%)	18.20
Subordinated equity	4.00	-	4.00
Loan	1.00	-	1.00

Note - There would be some adjustment to the capital structure depending on the interest rate applicable to the Government loan, progress of construction and the company's cash flow during the expansion period.
