
FACT SHEET

Financial arrangements relating to the construction and expansion of Hong Kong Disneyland

1. Background

1.1 At the special meeting held on 30 June 2009, the Panel on Economic Development discussed the financial arrangements relating to the expansion of Hong Kong Disneyland. During the discussion, a member requested the Research and Library Services Division to provide information relating to the changes in capital injection to and shareholding structure of Hongkong International Theme Parks Limited (HKITP)¹ since the opening of Hong Kong Disneyland. As such, the purpose of this fact sheet is to provide the Panel with information on the financial arrangements relating to the construction and expansion of Hong Kong Disneyland, with special reference to the changes in the shareholding structure of HKITP under the proposed expansion plan of Hong Kong Disneyland.

2. Financial arrangements relating to the construction of Hong Kong Disneyland

2.1 In December 1999, the Government entered into an agreement with the Walt Disney Company to develop and operate Hong Kong Disneyland at Penny's Bay. The theme park opened on 12 September 2005 as scheduled.

2.2 In 1999, the then estimated total project cost of developing Hong Kong Disneyland Phase I was HK\$14.1 billion (comprising HK\$8.4 billion of debt and HK\$5.7 billion of equity). This estimated cost was on top of the expenditure of HK\$4 billion incurred on reclaiming the land for Phase I of the project. The Government was also required to provide supporting infrastructure for the development of Hong Kong Disneyland.

¹ HKITP is a joint venture established by the Government and the Walt Disney Company for the purposes of developing and operating Hong Kong Disneyland.

2.3 Against the above background, the major capital spending that the Government committed with the construction of Hong Kong Disneyland includes the following²:

Capital Investment Fund	
Equity injection into HKITP	HK\$3.25 billion ^(Note 1)
Loan to HKITP	HK\$5.6 billion ^(Note 2)
A non-cash investment in subordinated equity shares issued by HKITP	HK\$4 billion ^(Note 3)
Forgoing dividend receivable from the MTR Corporation Limited	HK\$931 million ^(Note 4)
Capital Works Reserve Fund	
Reclamation and other infrastructure works (including, for example, connecting road works, costs of construction of the Inspiration Lake Recreation Centre, expenses for cleaning up the dioxin-contaminated soil, and the compensation payable to affected fishermen)	HK\$13.6 billion
Land acquisition and clearance compensation	HK\$1.6 billion

Notes: (1) The HK\$3.25 billion equity injection entitles the Government to a 57% shareholding in HKITP. In contrast, the Walt Disney Company has put up HK\$2.45 billion in equity and holds a 43% stake in HKITP.

- (2) Including capitalized and deferred interest, the outstanding balance of the Government loan is projected to be HK\$6.89 billion by mid-July 2009. See the Commerce and Economic Development Bureau (2009).
- (3) The land premium for Hong Kong Disneyland Phase I was HK\$4 billion, which was the estimated pro rata cost of the reclamation and site formation. HKITP has settled the land premium by issuing HK\$4 billion of subordinated equity shares to the Government. The shares would attract no dividend, initially, but would be convertible to ordinary shares in HKITP at a progressive rate depending on operating performance.
- (4) The Government has waived its claim of some HK\$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.

² See the Hong Kong Special Administrative Region Government (2005).

3. Financial arrangements relating to the proposed expansion of Hong Kong Disneyland

3.1 On 30 June 2009, the Secretary for Commerce and Economic Development announced that the Government and the Walt Disney Company had reached an agreement in principle on the expansion of Hong Kong Disneyland. Under the agreement, the Walt Disney Company will contribute all the necessary new capital (estimated to be about HK\$3.49 billion) for the construction of the new theme areas as well as for sustaining the park's operation during the construction years. It will also convert the entire outstanding balance (projected to be HK\$2.76 billion) of its loan to HKITP into equity.

3.2 On the other hand, the Government will not inject any new capital into the expansion plan. Instead, it will convert a substantial part of its loan to HKITP into equity, while retaining a balance of not less than HK\$1 billion. The outstanding balance of the Government loan to HKITP, including capitalized and deferred interest, is projected to be HK\$6.89 billion by mid-July 2009. The loan-to-equity conversion aims to contribute to the deleveraging of HKITP while maintaining the Government's majority shareholding in the joint venture. Please see **Table** below for details.

Table – Shareholding structure of HKITP under the proposed expansion plan of Hong Kong Disneyland

	Government	Walt Disney Company
Amount of capital invested in 1999 = (a)	<ul style="list-style-type: none"> • A capital injection of HK\$3.25 billion. 	<ul style="list-style-type: none"> • A capital injection of HK\$2.45 billion.
Amount of capital proposed to be invested under the expansion plan = (b)	<ul style="list-style-type: none"> • No new capital injection. • Conversion of HK\$6.25 billion of its outstanding loan to HKITP into equity. 	<ul style="list-style-type: none"> • HK\$2.76 billion from converting its loan to HKITP equity; and • HK\$3.49 billion for financing the expansion of Hong Kong Disneyland.
Total amount of capital to be invested = (a) + (b)	<ul style="list-style-type: none"> • HK\$9.5 billion. 	<ul style="list-style-type: none"> • HK\$8.7 billion.
Change in shareholding structure under the proposed expansion plan	<ul style="list-style-type: none"> • Reducing to 52% from the current 57%. 	<ul style="list-style-type: none"> • Increasing to 48% from the current 43%.

3.3 According to the Financial Services and the Treasury Bureau, the Government will not convert HK\$6.25 billion of its outstanding loan to HKITP into equity in one-go. The loan-to-equity conversion will be spread over a period of five years, the time required to complete the expansion plan of Hong Kong Disneyland. During the period, the Government can still earn interest from the remaining loan balance maintained with HKITP. Such an arrangement should allow the Government to retain a loan balance of not less than HK\$1 billion after the full conversion of its HK\$6.25 billion of loan into equity in five years' time.

3.4 The expansion project is estimated to cost HK\$3.63 billion and the Walt Disney Company will contribute all the necessary new capital (estimated to be about HK\$3.49 billion) for the construction of the new theme areas as well as for sustaining the park's operation during the project expansion period. According to the Financial Services and the Treasury Bureau, the difference between the project cost and the Walt Disney Company's contribution will be financed by the cash flows generated from the operation of the park within the project expansion period.

References

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Research and Library Services Division
3 July 2009
Tel: 2869 9621

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