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Finance Committee of the Legislative Council

**Minutes of the 26th meeting
held at Conference Room 1 of the Legislative Council Complex
on Saturday, 1 April 2017, at 8:30 am**

Members present:

Hon CHAN Kin-por, BBS, JP (Chairman)
Hon Michael TIEN Puk-sun, BBS, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon CHAN Chi-chuen
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Hon KWOK Wai-keung
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen

Dr Hon Elizabeth QUAT, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan
Dr Hon Pierre CHAN
Hon CHAN Chun-ying
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung
Hon LAU Kwok-fan, MH
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho
Hon Nathan LAW Kwun-chung
Dr Hon YIU Chung-yim

Members absent:

Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon Claudia MO
Hon Charles Peter MOK, JP
Hon CHAN Han-pan, JP
Dr Hon KWOK Ka-ki
Hon Dennis KWOK Wing-hang
Hon SHIU Ka-fai
Hon Kenneth LAU Ip-keung, MH, JP
Dr Hon LAU Siu-lai

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

Public officers attending:

Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Carol YUEN, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)1
Mr Alfred ZHI Jian-hong	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr Gregory SO Kam-leung, GBS, JP	Secretary for Commerce and Economic Development
Mr Philip YUNG, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Miss Cathy CHU, JP	Commissioner for Tourism
Mr Aaron LIU	Deputy Commissioner for Tourism
Mr Eddie LEE	Assistant Commissioner for Tourism (1)
Mr George TSOI	Assistant Commissioner for Tourism (4)
Mr Adolph LEUNG, JP	Principal Economist (2), Economic Analysis and Business Facilitation Unit
Mr Samuel LAU	Executive Vice President and Managing Director, Hong Kong Disneyland Resort
Miss Linda CHOY	Vice President, Public Affairs, Hong Kong Disneyland Resort

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1

in attendance:

Mr Derek LO	Chief Council Secretary (1)5
Ms Ada LAU	Senior Council Secretary(1)7
Mr Raymond SZETO	Council Secretary (1)5
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Michelle NIEN	Legislative Assistant (1)5

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Item No. 1 — FCR(2017-18)1
CAPITAL INVESTMENT FUND
HEAD 973 — TOURISM
New Subhead — "Equity in Hongkong International Theme Parks Limited for the Expansion and Development Plan at Phase 1 site of the Hong Kong Disneyland Resort"

The Chairman said that this item invited the Finance Committee ("FC") to approve a commitment to inject $5,450 million as equity from the Capital Investment Fund to the Hongkong International Theme Parks Limited ("HKITP") to support an expansion and development plan ("the Plan") at the Phase 1 site of the Hong Kong Disneyland Resort ("HKDL"). The Commerce and Economic Development Bureau ("CEDB") consulted the Panel on Economic Development ("the Panel") on the proposal on 28 November and 13 December 2016 and 27 February 2017. The Chairman declared that he was an independent non-executive director of The Bank of East Asia.

The Administration's shareholding in the Hong Kong Disneyland Resort and its revenue receivable

2. Noting that the shareholding of the Administration would drop from the current level of 53% to 52% after its capital injection for the Plan since the injection would be made as per a lower-than-usual ownership percentage of the Administration, Mr Jimmy NG asked whether the Administration intended to gradually reduce its shareholding in HKDL.

3. Mr KWONG Chun-yu enquired about the amount of revenue receivable by the Administration after years of investment in HKDL. Mr Kenneth LEUNG asked the Administration whether it had received any dividend paid out of HKDL's profits. Mr LEUNG considered that the current arrangements for profit-sharing and fees payable to The Walt Disney Company ("TWDC") had failed to incentivize HKDL to improve its performance. In view of the current operating performance, Mr Andrew WAN queried whether the Administration could recover its investment. He suggested that the Administration should follow the example of the French government, which had withdrawn its investment from Disneyland Paris by selling all its shares to TWDC. Mr Christopher CHEUNG asked whether TWDC could increase its capital injection for the Plan.

4. The Secretary for Commerce and Economic Development ("SCED") replied that having regard to the views expressed by the Panel on the Plan, the Government had, after further negotiation with TWDC, made a series of adjustments regarding the relevant cooperation arrangements, including revising the ratio between the Government and TWDC in sharing the project cost under the Plan from the existing shareholding ratio (i.e. 53% by the Government and 47% by TWDC) to the ratio of 50:50 He said that although HKITP had never paid out dividends, when HKITP recorded net profits, the two shareholders and the Hong Kong Disneyland Management Limited ("HKDML") had, having regard to the business situation and operating environment at that time, decided to put in place additional offerings and attractions which were funded by HKITP on a self-financing basis. Such offerings and attractions include the nighttime parade "Disney Paint the Night", a "Star Wars"-themed new programme, and the "Iron Man Experience". In response to Mr WAN's suggestion that the Administration should withdraw its investment from HKDL, the Assistant Commissioner for Tourism (4) ("AC(T)4") said that in the past few years, the operating situation and the financial performance of Disneyland Paris had been unsatisfactory. For example, in Fiscal Year 2016 ("FY16"), Disneyland Paris recorded a net deficit of €860 million and a negative EBITDA (i.e. earnings before interest, tax, depreciation and amortization) of €34 million. This was markedly different from the performance of HKDL which had recorded positive EBITDA for seven consecutive years from FY10 to FY16. The two, therefore, should not be mentioned in the same breath. The Executive Vice President and Managing Director, HKDL ("EVP & MD of HKDL") remarked that HKDML had all along been committed to improving the performance of HKDL and attracting overseas visitors to come to Hong Kong. In HKDL's international market, the number of visitors recorded a growth of 11% last year.

Funding and financial arrangements for the Plan

5. Mr CHAN Chi-chuen noted that according to the project cost estimates for the Plan, a sum of more than $5 billion would be spent on shows, rides, design and management costs, and creative entertainment. He enquired about the respective fees charged by TWDC or its related companies in respect of these four items (i.e. shows, rides, design and management costs, and creative entertainment) in similar works projects (including development and expansion projects) of HKDL in the past, as well as the respective percentages of such fees against the costs of those four items; in particular, the respective fees charged for the sub-item "Show and stage production (including media, audio/visual systems, special effects, props, show sets, etc.)" under the "Show" item and the sub-item "Design and creative work" under the "Design and management costs" item, as well as the respective percentages of such fees against the costs of the relevant sub-items. Ir Dr LO Wai-kwok and Mr YIU Si-wing also enquired whether the funding would cover royalties and other fees payable to TWDC.

[*Post-meeting note:* The supplementary information provided by the Administration was issued to members on 20 April 2017 vide LC Paper No. FC103/16-17(01).]

6. EVP & MD of HKDL responded that regarding the items mentioned by Mr CHAN Chi-chuen, the fees charged by TWDC of the United States were about 5% of the costs of all such items, calculated on a combined basis. On a shared basis, the average cost for each of the item was about 1% of the total costs of all such items. Such fees were design and technology development fees receivable by TWDC-related companies on a cost recovery basis for designing shows and rides under the Plan. He said that over 90% of the project cost of $10.9 billion would be spent on local operations or construction works/materials by third-party companies not related to TWDC. For the works projects undertaken by TWDC in the past, as they varied in scale, scope and design complexity, it would be difficult to make direct comparison regarding the design and technology development fees charged by TWDC. However, he agreed to provide supplementary information after the meeting.

Engagement of independent consultants to review the works projects of and funding for the Plan

7. Ir Dr LO Wai-kwok considered that the Plan was essential in sustaining the appeal of HKDL. The Administration should consider engaging an independent consultant to review the injection amount to see if it was reasonable as the project cost of the Plan was considerably high. Mr Alvin YEUNG said that it was unreasonable for the Administration to make the decision of injecting $5.4 billion for the Plan without seeking any independent opinions. Mr YEUNG asked the Administration about the justifications for revising the injection amount from $5.8 billion to $5.4 billion. Mr YIU Si-wing enquired whether there was any mechanism in place for the Administration to monitor the use of project funding.

8. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) replied that as the Plan involved complex design work in which virtual movie scenes and buildings were delicately recreated in the real world, it would inevitably incur higher construction costs. The Administration had drawn reference from the project costs of similar works projects undertaken in overseas theme parks, and had come to the view that the project costs incurred by the Plan were largely comparable to the project costs of those overseas theme parks. He cited the development plan (up to year 2021) announced by the Tokyo Disney Resort in April last year as an example, saying that while its eight new offerings would cost about HK$5 billion to HK$6 billion, the addition of 20 offerings under HKDL's Expansion Plan would cost $10.9 billion. It was therefore evident that the construction costs of the two were on a par with each other.

9. The Assistant Commissioner for Tourism (1) ("AC(T)1") added that an independent financial consultant had been engaged to conduct an assessment on the construction costs and the overall financing arrangements for the Plan. The financial consultant, in addition to the professional projections provided by TWDC, had also compared the construction costs of similar theme parks constructed in recent years in conducting cost assessments for the Plan. The consultant concluded that the proposed construction costs were within the range of construction costs of other similar projects.

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10. SCED said that TWDC, being experienced in developing and expanding its brand parks, was equipped with expertise in this regard. He reiterated that the Administration had, in light of the concerns raised by the Panel, discussed with TWDC again. After such further discussion, the amount of cash equity injection from the Government, as its share of the project costs under the Plan, had been reduced by $350 million from $5,800 million to $5,450 million, subject to the total project costs being contained to below $10.9 billion. SCED said that the Administration had all along been monitoring the operation of HKDL and its business performance through routine meetings with HKDML, HKITP Board, etc. Similar to the practice of previous expansion projects, HKDML would also be required to report the progress of the Plan to the Administration on a regular basis. According to experience, TWDC had been able to complete its expansion projects both on schedule and within budgetary constraints.

Royalties and management fees payable to The Walt Disney Company

11. Pointing out that the current mechanism for charging royalties and management fees allowed TWDC to charge HKDL management fees even if the latter was incurring loss, Dr CHENG Chung-tai considered this mechanism extremely unfair to the Administration. Dr CHENG remarked that the Panel had passed a motion urging the Administration to discuss with TWDC the improvement of the mechanism for calculating royalties and management fees. Unfortunately, TWDC had not put forth any improvement proposals on the pretext that "TWDC's business in other Disney resorts outside the United States may be impacted" and "improvements to HKDL's management fee structure were already made in 2009". He asked the Administration how its financial consultant had commented on the current mechanism for calculating royalties and management fees.

12. Mr Christopher CHEUNG welcomed TWDC's agreement to waive the variable management fees payable by HKITP for FY18 and FY19 as well as other changes in the financing arrangements. However, he was of the view that the rates of management fees payable to TWDC were too high. Mr CHEUNG suggested that TWDC should waive the payment of variable management fees when HKDL was in times of deficit, whereas it might charge variable management fees ranging from 0% to 8% as agreed in times of profit.

13. SCED said that in 2009, the Government and TWDC reviewed and improved the method for calculating management fees. Since then, HKDL's management fees had been fully linked to HKDL's performance (i.e. EBITDA), under which the formula for calculating the base management fee was adjusted to 6.5% of EBITDA, instead of the original formula of 2% of gross revenues, and the formula for calculating the variable management fee was adjusted from 2% to 8% of EBITDA to 0% to 8% of EBITDA. Since the implementation of the improved management fee structure in 2009, HKITP had recorded positive EBITDA for seven consecutive years between FY10 and FY16, with net profits in three of those years. It showed that the new management fee structure could better incentivize HKDML to drive its business performance and operational efficiency. SCED said that the performance of HKDL over the past two years had been affected by Hong Kong's macro tourism environment. AC(T)1 supplemented that according to the financial consultant, the arrangements for paying royalties and management fees to TWDC were industry-wide practices commonly used by other theme parks.

14. EVP & MD of HKDL said that the management fee structure was agreed by the two shareholders, i.e. the Hong Kong Government and TWDL. He pointed out that, in the course of operating HKDL, the management team had not only benefited from the impressive branding effect of a number of popular brand names under Disney (e.g. "Star Wars" and "Marvel"), but also received support from TWDC in terms of resort management, shared systems (operational safety, management of networking systems, etc.) and marketing strategies.

15. Mr Alvin YEUNG and Mr Kenneth LEUNG asked whether the waiver of variable management fees granted by TWDC could be extended to beyond 2019 or even until the completion of the Plan. Mr SHIU Ka-chun enquired whether the rates of management fees could be lowered further. Mr LEUNG asked whether linking management fees to performance was also the practice adopted by other Disney resorts overseas.

16. SCED replied that in order to show its commitment to Hong Kong and the HKDL project, TWDC had agreed to waive the variable management fees payable by HKITP for FY18 and FY19. It was therefore the best deal that could be struck by the Government in its negotiation with TWDC.

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17. The Commissioner for Tourism ("C for T") added that regarding management fees, the exact calculation mechanism varied across different Disney resorts outside the United States. For Disneyland Paris, the base management fees were charged at 1% to 6% of revenues, while the variable management fees were calculated based on 30% of pre-tax adjusted cash flow, in excess of 10% of gross fixed assets. As for Shanghai Disney Resort, its management fee mechanism was designed with reference to HKDL's arrangements before the improvement agreed in 2009, i.e. management fees were tied to revenues. The current mechanism adopted by HKDL for the calculation of management fees compared favourably with those adopted by Disneyland Paris and by Shanghai Disney Resort. As Tokyo Disney Resort, wholly-owned by a Japanese private enterprise, was not operated by TWDC, the payment of management fees was not necessary in this case.

18. Mr MA Fung-kwok enquired about the total amount of management fees that HKITP had paid to TWDL in the past 11 years and the projected amount of management fees payable for the next 10 years. Mr MA considered it unacceptable that while the business performance of HKDL fell far below expectations against the targets set at the outset, HKDML was not held responsible for its unsatisfactory performance. Mr SHIU Ka-chun requested the Administration to disclose past operational data of HKDL, including revenues, operating costs and other relevant information.

19. Mr Michael TIEN said that based on the financial information disclosed by HKDL for FY16, as well as some other data such as his estimated rates of royalties and variable management fees charged by TWDC on HKITP, he further estimated that the total amount of royalties and management fees charged by TWDC in FY16 amounted to $440 million. Mr TIEN then made another estimate of the amount of royalties and management fees charged by TWDC for the past seven years, taking into account HKDL's EBITDA in the past seven years and his estimated rates of royalties and management fees charged by TWDC. He found that, after deducting the losses, TWDC still had a profit of about $2.7 billion but the Administration suffered a loss of $300 million. He sought explanation from the Administration.

20. SCED and C for T said that as the actual and projected amounts of management fees involved HKDL's commercially sensitive information, under the agreement between the Government and TWDC, such information could not be disclosed to members. However, starting from FY09, TWDC disclosed HKDL's key operating and financial results (including gross revenue, EBITDA and the profit and loss situation) on an annual basis, and briefed the Panel on the business performance of HKDL every year. SCED remarked that, as both the Government and TWDC were subject to confidentiality provisions, he would neither confirm nor refute the figures estimated by Mr Michael TIEN on the basis of Mr TIEN's own assumptions. C for T said that in its past 11 years of operation, HKDL received over 64 million guests, higher than the total attendance of 54 million estimated in 2009, thereby bringing considerable benefits to local economy.

21. Mr SHIU Ka-chun and Mr Andrew WAN expressed dissatisfaction with the Administration as it had not responded to questions raised by Mr Michael TIEN and other members on the financial data of HKDL.

Future operation and performance of the Hong Kong Disneyland Resort

22. Mr YIU Si-wing expressed support for the Plan. Noting that the current injection proposal involved a huge amount of capital, he enquired about the levels of attendance and hotel occupancy rates required if the Plan had to achieve cost recovery.

23. SCED responded that the Administration had set out, in paragraph 15 of the paper FCR(2017-18)1, the two sets of attendance projection provided by TWDC. Based on these two sets of projection, the Administration had conducted economic and financial assessments and come up with an estimate that the financial return would be more than 5% in real terms. EVP & MD of HKDL advised that HKDL's previous experience in undertaking expansion projects fully reflected that the attendance and revenue of HKDL could be successfully and effectively pushed up whenever new offerings and attractions were launched, particularly when supported by effective marketing and promotion strategies. It was believed that the Plan would be effective in driving the attendance and business growth of HKDL.

24. Dr YIU Chung-yim said that since the Administration had not yet provided him with the data on discounted cash flow analysis, he could only evaluate the accuracy of the Administration's economic assessment of the Plan by referring to the attendance to HKDL in the past few years. Considering that the operating cost of HKDL was relatively stable, Dr YIU estimated that its total operating cost was $5.1 billion per year. Given that the current injection plan involved a total of $10.9 billion and there was an assumption that returns would be available within 10 years, if HKDL had to achieve a return of 5% in real terms as projected by the Administration, its annual revenue must not be less than $6.1 billion and its annual attendance must at least reach 8.3 million. However, the annual attendance of HKDL had persistently dropped since 2014, from 7.5 million in 2014 to 6.1 million in 2016. On this basis, Dr YIU estimated that there must be a 36% attendance increase in the next few years if the Plan was to achieve the projected financial return of 5%; otherwise, cost recovery would not be possible by 2025. In view of the declining attendance, Dr YIU held that it was unrealistic for the Administration to expect an attendance of over 9 million after 2025. The Administration's projections, including the number of years required for achieving cost recovery and rates of return, were therefore inaccurate. He suggested that the Administration should reconsider whether to make the capital injection in question, depending on the future trend of attendance growth.

25. SCED and AC(T)4 said that the financial return assessment on the Plan was conducted mainly on the basis of the additional attendance and additional cash flow that would be brought by the additional investment concerned. As mentioned in the paper submitted to FC, the two sets of projection were adopted as the basis of the financial assessment. Under Situation A, the attendance was expected to go up to 9 million in 2025, while under Situation B, the attendance was expected to reach 9.3 million in 2025. At the time when the assessment was conducted, the present value of additional cash flow was calculated against the corresponding operating revenue and the necessary expenditure. Details of HKDL's income and expenditure were commercially sensitive information which could not be disclosed under the agreement between the Administration and TWDC. Under the two sets of projection, HKDL's attendance would record an increase from 2018 (from this year onwards, new attractions would be completed one after another) to 2025. Under Situation A, there would be an annual increase of 3.4% in attendance on average, while under Situation B, the annual increase of attendance would reach 3.9%. Under both scenarios, the number of visitors would gradually stabilize between 2025 and 2030.

26. Mr LEUNG Yiu-chung shared the views of Dr YIU Chung-yim. He asked the Administration about its forecast for HKDL's operation after the completion of other major infrastructure projects (e.g. the expansion of the Hong Kong International Airport into a three-runway system) if the proposed new offerings were not launched. Mr Holden CHOW enquired about the impact on the visitor flow if the Plan was not carried out amidst a decline in visitor numbers. Mr LEUNG Kwok-hung blamed the Administration for signing a financially unfair agreement with TWDC in an unfavourable economic situation after the financial turmoil. In his view, a downward trend in attendance, coupled with competition from Shanghai Disney Resort, suggested a gloomy prospect for the operation of HKDL.

27. Mr WONG Ting-kwong said that the tourism industry of Hong Kong was in need of an all-rounded development and the support of a wide range of tourist attractions. The profit or loss situation of a particular tourism facility should not be the sole factor for determining whether the Government should stop investing in that facility. He enquired about the operating prospect of HKDL after the implementation of the Plan.

28. EVP & MD of HKDL pointed out that there was improvement in HKDL's business performance in the latter half of FY16 as evidenced by the followings: the annual number of international visitors had rocketed to the second highest since its inception, and the per capita spending by HKDL's visitors had reached its record high and recorded growth for seven consecutive years. Under the Plan, new offerings, including the new themed-areas featuring "Marvel" and "Frozen", would be launched, and these Disney brand names were some of the most popular and successful brand attractions recently. Meanwhile, with the successive and upcoming completion of several major infrastructure projects, such as the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, it was envisaged that the competitiveness of tourism in Hong Kong could be maintained. In view of the above, he considered that the operating prospects of HKDL were optimistic. He said that new offerings and attractions would bring in more visitors, and its operational efficiency would then be enhanced. If the Plan could not be taken forward, HKDL would miss the opportunity to boost attendance and enhance its business performance.

29. SCED said that since the business performance of HKDL in the past two years was affected by various external factors and the overall market situation, its attendance had decreased. However, there had been a significant increase in its attendance from 4.6 million to 7.5 million between 2009 and 2014. C for T advised that that in its past 11 years of operation, HKDL received over 64 million guests, higher than the total attendance of 54 million estimated in 2009. It was therefore demonstrative of the economic benefits that could be brought about by HKDL and the strength of HKDL. Notwithstanding that the increase in the number of inbound short-haul tourists to Hong Kong was only about 6% in 2016, the number of international visitors received by HKDL had recorded a year-on-year growth of 11%. Among these international visitors, the numbers of visitors from Japan, the Philippines and South Korea had increased by 37%, 28% and 27% respectively on an annual basis, which spoke for itself the strong capability of HKDL in attracting visitors. Amidst an increasingly competitive environment in the region, there was a practical need to enrich Hong Kong's tourist attractions and enhance our competitiveness.

30. Dr CHIANG Lai-wan asked whether HKDL had taken any measures to generate revenue and cut costs so as to further enhance its operational efficiency. Taking the new "Frozen"-themed offering as an example, she asked if HKITP had conducted market surveys on the popularity of this offering. She also enquired about the effectiveness of the cost-saving measures (if any), and considered it necessary for the Administration to conduct annual reviews of the effectiveness of such measures.

31. EVP & MD of HKDL responded that the "Frozen"-themed offering known as "Frozen Village" launched earlier by HKDL had been well-received among visitors, and the sales of the relevant products were also impressive. He added that the Plan, which would span over a few years, aimed to sustain HKDL's appeal through the launch of at least one new attraction almost every year from 2018 to 2023, so that HKDL would keep providing fresh incentives for visitors to keep coming to HKDL within a relatively longer period of time. HKITP would assess the effectiveness of the Plan as a whole.

The Plan's actual impact on the local economy and job market

32. Mr KWOK Wai-keung and Mr LUK Chung-hung considered that, with the implementation of the Plan, the development of local tourism industry would be further tilted towards HKDL. This was not in

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consonance with the Administration's initiative of advocating tourism diversity. Mr KWOK requested that the Administration should explain the basis upon which it had arrived at the following figures: in its past 11 years of operation, HKDL generated around $83.6 billion of total value-added at 2014 prices and created a total of 214 800 jobs. Mr LUK was dissatisfied that HKDL had not granted permanent fee waivers to tourist guides.

33. The Principal Economist (2), Economic Analysis and Business Facilitation Unit said that regarding the economic benefits generated by HKDL, the additional spending of various types of visitors was estimated by referring to the statistical data compiled by the Hong Kong Tourism Board ("HKTB") over the past 11 years, as well as the operating data provided by HKDL. After information on such additional spending was estimated, the value added thus derived from this additional spending was calculated in accordance with the specific operating cost structure of the sectors concerned. On the basis of such data, the gross economic benefits generated and the number of jobs created by HKDL were then calculated.

34. EVP & MD of HKDL advised that HKITP waived the admission fees for tourist guides for a year last year, and it was proposed that the waiver period be extended for one year. SCED said that the Administration welcomed the provision of more justifications and information by Mr LUK Chung-hung after the meeting to facilitate the discussion on possible options regarding the admission fee arrangement for tourist guides. The Administration had all along been committed to promoting local tourism. In the 2017-2018 Budget, it proposed allocating additional provisions of $12 million, $5 million and $3 million to promote tourism activities showcasing Hong Kong's local characteristics, support green tourism and enhance tourism facilities and quality respectively.

35. Mr SHIU Ka-chun asked the Administration to specify the substantial benefits that would be brought by the Plan to the public. SCED responded that the Plan would create 3 500 jobs during the construction stage and the new attractions launched after the completion of works would create another 600 jobs. Taking into account the additional spending stemming from incremental visitors, the Administration expected that 5 000 to 8 000 new jobs would be created. He said that the Administration had been providing the Panel with an update on HKDL every year.

36. Mr HO Kai-ming asked whether the assessment of visitation projections provided by TWDC in respect of HKDL was consistent with the analysis conducted by the Administration.

37. SCED said that in FY16, local, Mainland and overseas visitors accounted for 39%, 36% and 25% of HKDL's yearly attendance respectively. HKDL would continue to steer its promotional efforts in tandem with different market situations. Among the overseas visitors to HKDL last year, those from Japan, the Philippines and South Korea had increased by 37%, 28% and 27% respectively. EVP & MD of HKDL advised that the number of international visitors to HKDL recorded a year-on-year double-digit growth last year, and HKITP would, in future, continue to expand its customer base by attracting visitors from different countries, so as to avoid putting too much emphasis on one single market. He said that according to the on-site visitor surveys conducted by HKDL and the independent survey conducted by HKTB in Hong Kong, among the tourists who had visited HKDL, about half of them stated that HKDL was a major reason for their visiting Hong Kong. The findings showed that HKITP had played a positive role in attracting visitors to Hong Kong.

Comparison between the Hong Kong Disneyland Resort and other Disney resorts

38. Mr Nathan LAW said that if the Administration was to be compared with the Shanghai government in terms of their respective control over and profit-sharing percentages in HKDL and Shanghai Disney Resort, the Shanghai government was in a more advantageous position than the Administration, which did not even have shares in HKDML. He sought explanation from the Administration.

39. AC(T)1 responded that the Shanghai government currently owned 57% of the equity of the Shanghai Disney Resort, which was similar to the shareholding ratio borne by the Hong Kong Government during the initial operation of HKDL. In its 11 years of operation, the financial commitment from TWDC towards HKDL had been increasing, as evidenced from TWDC's total investment of some $8.2 billion in HKITP by way of cash equity and loan, far exceeding the $800 million loan provided by the Administration during the same period. As such, the difference between the overall financial investment in HKITP by the Government and that by TWDC had been narrowing down over the years. The Shanghai Disney Resort and HKDL were managed and operated under different approaches. The Shanghai government owned 30% of the shares of the Shanghai Disney Resort Management Company. The Hong Kong Government held that allowing HKDML to take charge of the operation of HKDL could capitalize on the advantages of TWDC's professional management. The Administration had all along been monitoring the operation of HKDL through routine meetings with HKDML, Joint Venture

Board, etc. The above practice could better enhance HKDL's operational efficiency and effectiveness. Regarding payment of royalties to TWDC, the royalty rates charged by TWDC on HKDL and on Shanghai Disney Resort were largely the same. The royalties paid by Shanghai Disney Resort were received by TWDC in full, and the Shanghai government did not have a share of such royalties. As such, HKDL's cooperation arrangements did not compare unfavourably with the arrangements for other Disney resorts outside the United States.

40. Mr HO Kai-ming enquired about the distinctive characteristics of HKDL when compared with the other two Disney resorts in Asia. Mr HO was concerned about whether TWDC had any global development strategy for the development of individual Disney resorts so that the several Disney resorts in Asia, though in close proximity, could have their own unique characteristics to sustain their appeal for visitors.

41. EVP & MD of HKDL said that the positioning of HKDL was an internationalized theme park. In terms of visitor mix and the design of various services, the objective of HKDL was to cater for a clientele coming from different countries and regions. The team was also committed to enhancing the uniqueness of HKDL by including, where appropriate, elements that were unique to Hong Kong at the design stage of various attractions. A good example was the recently-opened "Iron Man Experience" where visitors might take a thrilling aerial tour of the city to get a unique perspective of the hills and the shoreline of Hong Kong and fight against evil powers in the urban area.

New attractions under the Plan

42. Mr KWONG Chun-yu and Mr James TO requested TWDC to grant time-limited exclusivity to HKDL for individual new themes so as to maintain the appeal and competitiveness of the new attractions. Otherwise, the current capital injection proposal might not be able to generate the expected benefits or even end up bringing losses to the Administration again.

43. SCED noted members' concerns and requests, but he considered that it would be difficult for HKDL to be granted with exclusivity for popular brands such as "Frozen" and "Marvel", given that these two Disney brands were widely popular across the globe, and the amusement attractions themed on these two brands demonstrated great artistic possibilities and diversified combinations. However, if the Plan could be completed as soon as possible, HKDL could have first-mover advantage brought by the new offerings and attractions themed on these brands.

EVP & MD of HKDL advised that HKDL would be the first Disney park in the world featuring both "Frozen" and "Marvel"-themed areas. Operational experience proved that new attractions could always push up attendance. Whenever TWDC designed new attractions for a Disney resort, it would endeavor to make them unique, having regard to the needs of local markets, so that visitors got unique and extraordinary experiences from different Disney resorts. The recently-launched "Iron Man Experience" purposely featured Hong Kong as the backdrop, thereby giving HKDL distinctive local flavour and uniqueness.

The site reserved for Phase 2 expansion of the Hong Kong Disneyland Resort

44. Mr WU Chi-wai was concerned about the development of the site reserved for Phase 2 expansion of HKDL. He asked how HKDL's Phase 1 expansion, including both the completed and proposed expansion plans, would impact on the development restrictions of the Phase 2 site. Mr WU said that as the site was subject to such development restrictions and some other agreements between the Administration and TWDC, it might be left idle for almost 30 years. He asked whether the Administration could resume the site in case HKDL did not pursue its Phase 2 expansion. Noting that the Administration had stated in the 2015 Policy Address that it would commence discussion on Phase 2 development of HKDL with HKITP, Mr WU asked the Administration about its plan and the progress of discussion.

45. Mr MA Fung-kwok did not think HKDL would have a promising operating prospect after the opening of Shanghai Disney Resort. He enquired about the development potential of the site reserved for Phase 2 expansion and the plan of the Administration.

46. SCED advised that it was the intention of the Administration to enrich HKDL Phase 1 attractions first, and having regard to the operating performance of HKDL after the completion of the Plan, it would then decide whether to proceed with Phase 2 expansion. C for T responded that under the agreement, HKITP was given an Option to buy the Phase 2 site for a second phase of the development. The Option was valid for 20 years until year 2020. Upon the expiry of the Option, HKITP enjoyed an unconditional right to request a five-year extension until year 2025. However, HKITP's right to extend the Option for a second five-year period until year 2030 was conditional. HKITP was entitled to, in 2025, request the Government to extend the Option for a second five-year period until year 2030 on condition that the annual attendance of HKDL recorded

continuous growth of having not less than 8 million but not more than 10 million visitors a year between 2023 and 2025.

Points of order

47. Mr LEUNG Kwok-hung asked SCED to bring him souvenirs from the countries he would soon visit in his upcoming overseas duty visits. Mr LUK Chung-hung raised a point of order, saying that it was inappropriate for Mr LEUNG to make such a request to SCED during FC's deliberation on this item as it would give rise to a conflict of interest. Mr LEUNG Kwok-hung immediately said that he withdrew his aforesaid remarks.

48. The meeting was adjourned at 10:32 am.

Legislative Council Secretariat
23 February 2018