

**Information Paper for the Legislative Council
Manpower Panel Meeting
on 25 November 1999**

Hong Kong Disneyland

This paper briefly outlines the agreement reached between the Government and The Walt Disney Company (WD) for the development at Penny's Bay on Lantau Island of a world-class international theme park and resort, to be known as Hong Kong Disneyland (HKD), as well as the associated impact on employment. The agreement is subject to the approval of the Executive Council, the Legislative Council and the WD Board.

Development of Hong Kong Disneyland

2. The Government and WD have agreed, subject to the approval of the Executive Council, the Legislative Council and the WD Board, to proceed with Phase I of HKD. It will include a Disney theme park, Hong Kong Disneyland, which will combine attractions, shows and cutting-edge technology from Disney theme parks around the world to create a unique mix of new and traditional Disney entertainment experiences. Upon completion of Phase I, the project will also include three to four Disney-themed resort hotels with up to 2,100 hotel rooms to be constructed adjacent to the theme park. In addition, Phase I of the project will include a 28,000 square metre retail, dining and entertainment complex as part of the overall Hong Kong Disneyland experience. The agreement also anticipates a Phase II project, which would include a second Disney theme park, additional hotels and an expansion of the retail, dining and entertainment complex. Phase I of Hong Kong Disneyland (excluding land premium) will cost a total of \$14.1 billion to develop and is expected to open in 2005.

Economic Assessment and Benefits

3. The Government's decision to support the project is based on our assessment of the likely economic benefits to Hong Kong, which would derive from :

- (a) additional tourists visiting Hong Kong;
- (b) additional spending by existing tourists;
- (c) additional spending by local residents; and
- (d) additional employment.

4. If the forecast of performance and financial projections for Phase I (known as “Base Case”) is achieved, the key economic benefits are:

| | <u>Base Case</u> |
|---|-------------------------|
| Net economic benefit in present value over 40 years | \$148 billion |
| Economic rate of return in real terms | 25% |
| Benefit/cost ratio | 8.1 / 1 |
| Additional employment created directly and indirectly | |
| - on opening (around 2005) | 18,400 |
| - on build out (around 2020) | 35,800 |

The above figures are based on Phase I from opening to full build out. They do not include the potential benefits which might arise from extending to Phase II with the second park and related facilities. While much economic benefit will be generated from the on-site activities, an also significant part of the overall economic benefits will come from the wider spin-offs, including those business activities in support of the theme park and associated facilities and the additional tourist spending induced elsewhere in Hong Kong.

5. While performance as per the Base Case is taken for the main assessment, a number of more conservative alternative scenarios are also examined. It is reckoned that even in the most conservative scenario examined, the net economic benefits of the Phase I project would still be considerable, at a cumulative value of \$80 billion with an economic rate of return of 17% in real terms and a benefit/cost ratio of 4.9/1.

Employment

6. Based on the employment structure of the relevant economic activities, the broad occupational distribution of employment stemming directly and indirectly from the theme park operation is estimated as follows :

| <u>Broad occupation category</u> | <u>Phase I Opening</u> (number) | | |
|--|--|---|--------------------------------|
| | <u>Direct employment on-site[#]</u> | <u>Direct employment off-site</u> | <u>Indirect employment</u> |
| Managers and administrators, professionals and associate professionals | 300 | 1 040 | 2 200 |
| Clerks, service workers and shop sales workers | 3 350 | 4 180 | 2 450 |
| Craft and related workers, plant and machine operators and assemblers | 200 | 330 | 1 550 |
| Elementary occupations | 350 | 1 050 | 1 400 |
| Total | 4 200 | 6 600 | 7 600 |

| <u>Broad occupation category</u> | <u>Phase I Build-out</u> (number) | | |
|--|--|-----------------------------------|----------------------------|
| | <u>Direct employment on-site[#]</u> | <u>Direct employment off-site</u> | <u>Indirect employment</u> |
| Managers and administrators, professionals and associate professionals | 460 | 2 280 | 4 280 |
| Clerks, service workers and shop sales workers | 5 090 | 9 240 | 4 790 |
| Craft and related workers, plant and machine operators and assemblers | 300 | 730 | 2 990 |
| Elementary occupations | 620 | 2 280 | 2 740 |
| Total | 6 470 | 14 530 | 14 800 |

Notes : (#) Occupation distribution as estimated by Walt Disney.

The precise levels of educational attainment or academic qualifications required for these jobs will be for the respective employers to stipulate on recruitment, but may be broadly inferred from the descriptions of the above occupation categories.

7. As to the total of 16 000 man-years of construction employment likely to be created during the land formation and infrastructure construction and the erection of superstructure and facilities for Phase I of the theme park, it is crudely reckoned that around 12 000 man-years are related to on-site jobs (mainly skilled, semi-skilled and unskilled workers at site) and around 4 000 man-years are related to off-site jobs (such as professionals and associate professionals, and administrative and other support staff for the construction work). A more detailed breakdown by job categories can only be made available when detailed planning for the various specific construction projects takes shape.

Other Benefits

8. In addition to the substantial quantified economic benefits as assessed above, the theme park and its associated facilities are also expected to bring about significant non-quantifiable benefits. Some of these benefits are as follows :

- (a) quality standards - given WD's reputation for creativity, operational excellence and delivering high levels of guest satisfaction, the operation of HKD will set a new standard for the service sector in Hong Kong.
- (b) technological innovation - given WD's reputation for technological innovation, the operation of HKD will showcase the best of cutting-edge technology in its attractions and shows.
- (c) quality of life - HKD will enrich the quality of life for Hong Kong people in general by providing quality family entertainment and quality entertainment and recreational facilities.
- (d) image - HKD will no doubt enhance the international image of Hong Kong as a vibrant, cosmopolitan city, and specifically enhance the status of Hong Kong as a key tourist destination in Asia and the world. HKD's marketing and sales efforts, in combination with those of Hong Kong in general, will help make international tourists aware of the multiple reasons to travel to Hong Kong.
- (e) training - WD's commitment to employee training and development, especially in the area of guest service, will provide an added resource and leadership presence to Hong Kong's expanding service sector. The "Disney University" offers a wide variety of career development programmes for its employees (known as "cast members") at all levels of the organisation.
- (f) environmental sensitivity - WD's commitment to environmental sensitivity in its theme parks around the world will help set a new standard for Hong Kong. The company will bring its experience in environmental awareness and education to this project, including environmentally friendly operating practices such as recycling, energy conservation, and

waste and water management.

Financing of Hong Kong Disneyland

9. The Government and WD have agreed to set up a joint venture company (to be known as Hong Kong International Theme Parks Limited, “HKITP”) for the purpose of developing and operating HKD. The Government has agreed to the following :

- (a) equity contribution – the Government will make an initial equity contribution of \$3.25 billion (or 57% of the outstanding one-dollar shares). WD will contribute \$2.45 billion (or 43% of the outstanding shares). We envisage that third party investors may be interested in investing in HKITP in the future. After the first year of operation, the Government will be free to hold or sell down its shares over the life of the project as it wishes. However, WD will commit to retain at all times a minimum investment of 1.9 billion shares.
- (b) government loan – the Government will make a loan available to HKITP of \$5.6 billion (rising to \$6.1 billion on park opening with inclusion of capitalised interest) at interest rates ranging from Prime minus 1.75% to Prime. The loan must be completely repaid with interest within 25 years.
- (c) land premium – the land premium for Phase I is \$4 billion, representing the estimated pro rata cost for the reclamation and land formation. HKITP will settle the premium by issuing \$4 billion worth of subordinated shares to the Government. These shares attract no dividends in themselves, but are convertible to ordinary shares in the company at a progressive rate depending on performance above base case.

The total capital structure will be as follows:

| <u>Source of Funding</u> | <u>Amount (\$ billion)</u> | <u>% of Total</u> |
|---------------------------------|-----------------------------------|--------------------------|
| Equity , of which | 5.7 | 40.4% |
| - Government | 3.25 | 23.0% |
| - Disney | 2.45 | 17.4% |
| Debt , of which | 8.4 | 59.6% |

| | | |
|--------------|--------------------|--------------------|
| - Government | 6.1* | 43.3% |
| - Commercial | <u>2.3</u> | <u>16.3%</u> |
| Total | <u>14.1</u> | <u>100%</u> |

Attendance and Spending

10. The Base Case projects an opening year attendance of 5.2 million visitors which includes approximately 35% (1.8 million) Hong Kong guests and 65% (3.4 million) tourists. Of the total tourist visits, an estimated 1.4 million, or over 25% of the total attendance, are incremental tourists to Hong Kong who would not have otherwise visited the region. With time, the proportion of overseas visitors will rise along with the number of incremental tourists to Hong Kong. At Phase I build out, total attendance is estimated at 10 million, with almost 75% tourists, including approximately 2.9 million incremental visitors.

11. Overall spending at HKD is estimated at approximately \$9.5 billion at opening year, increasing to nearly \$18.7 billion annually at Phase I build out. This calculation is based on total direct on-site spending by tourists and local residents in the theme park, themed hotels and retail, dining and entertainment complex, as well as off-site spending by existing tourists who extend their stay in Hong Kong, and all off-site spending by incremental tourists (including receipts by local airlines).

Future Expansion

12. The Government and WD have agreed that HKITP will proceed with a second phase on the site immediately to the east of Phase I assuming that the Phase I project is successful. Accordingly, we are giving HKITP the option, valid for 20 years after park opening and subject to certain conditions, to purchase the Phase II site. We have also agreed that HKITP would be given the right of first refusal to buy the site to the east of Phase II when this is eventually available for disposal.

* Including capitalised interest of \$0.5 billion.

Way Forward

13. The Government and WD have agreed to seek the necessary internal endorsements by the Executive Council and the Legislative Council and The Walt Disney Company Board of Directors in November 1999 with a view to entering into firm contractual arrangements before the end of the year.

Tourism Commission
Economic Services Bureau
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