

**For discussion on
17 January 2012**

**Legislative Council Panel on Economic Development
Update on Hong Kong Disneyland**

Purpose

This paper updates Members on the operation of the Hong Kong Disneyland (HKD) in 2010/2011.

Fiscal Year 2010-11 (FY11) Performance

Overview

2. As of the end of December 2011, HKD has received over 31 million visitors since its opening. In FY11¹, against the backdrop of a booming tourism market in Hong Kong and driven by the vigorous sales and marketing strategies as well as the successful special events and programmes, HKD's attendance surged to 5.9 million, a 13% rise over the previous year. The local, the Mainland of China and international attendance increased by 9%, 20% and 9% respectively. The guest mix in FY11 is 31% local, 45% the Mainland of China and 24% international. The two hotels at HKD recorded a combined occupancy rate of 91% in FY11, representing an increase of 9 percentage points from the previous year.

3. HKD's total revenue in FY11 was \$3,630 million, 20% higher than the previous year. The earnings before interest, taxes, depreciation and amortisation was \$506 million, a substantial improvement from \$221 million in FY10.

¹ According to the internal financial arrangement of HKD, the fiscal year ends on the Saturday closest to 30 September. FY11 covers the period from 3 October 2010 to 1 October 2011.

4. During the year, HKD continued its partnership with the travel trade to increase sales penetration and product awareness for HKD product offerings in the Mainland and other key source markets in Asia. HKD organised cooperative marketing activities with trade partners, and participated in trade shows and missions organised by the China National Tourism Administration, the Hong Kong Tourism Board (HKTB), the Pacific Asia Travel Association and other organisations. Arrivals from Taiwan, Singapore, Malaysia, Indonesia, Thailand and Japan all recorded double-digit growth.

5. HKD continued to maintain very high service standards. According to its guest surveys, the majority of guests indicated that they intended to re-visit HKD in the future and would recommend the park to others. 92% of theme park visitors and 97% of hotel guests rated their overall experience as “good” or above.

6. The annual business review for FY11 is at the **Annex**.

Special events and programmes

7. HKD continued to offer a variety of special theme-based events and programmes in FY11, including “Disney’s Haunted Halloween” that continues to provide new and thrilling entertainment elements to broaden guest appeal; “Sparkling Christmas – A Storybook Fantasy”, in which Duffy the Disney Bear made his first appearance at HKD and was introduced as a new franchise for merchandise. In January 2011, HKD launched the year-long “Celebration in the Air” campaign to commemorate its Fifth Anniversary, debuting the all-new “Flights of Fantasy Parade” and “Tinker Bell’s Pixie Dusted Castle”. Under the theme of the Fifth Anniversary celebration, other special events for Year of the Rabbit Celebration and Star Guest Program continued to score high guest satisfaction ratings. During the summer school-break period, HKD rolled out the “Lightning McQueen “Live”!” event which was themed on the popular character Lightning McQueen from the Disney/Pixar film “Cars” in conjunction with the theatrical release of “Cars 2” in Hong Kong.

8. Through these special events and programmes, HKD is able to offer broader market appeal and culturally diverse products, thus enhancing guest experience and driving attendance from first time and repeat visitors.

Marketing and Sales Promotion

9. It remains HKD's goal to drive attendance from all three key markets, i.e. local Hong Kong, the Mainland and international, which are important to sustainable business growth and market development.

10. For local guests, HKD adopted a mix of new marketing channels to promote events. For example, a preview night of this year's Halloween event was sold on an online group-buying platform which was well received by local guests.

11. HKD continued to expand the geographic reach of its sales and marketing activities across different tiers of cities in the Mainland. Out of the liaison bases in Beijing, Shanghai, Guangzhou and Chengdu, HKD stationed a total of 26 liaison representatives to serve the increasing demand in the Mainland market.

12. In international regions, HKD continued to focus efforts on the top nine markets in Asia and Australia. HKD continued to be marketed as Hong Kong's iconic attraction for first time visitors and for those repeat visitors interested in enjoying the diverse and unique experience in Hong Kong.

13. HKD also continued to partner with the HKTB and other organisations to launch various cooperative marketing initiatives in the Mainland, Taiwan and other South East Asian markets to promote HKD's seasonal events around the calendar. Travel trade events were hosted in different markets to engage trade partners and achieve early buy-in. Strategic distribution marketing programmes were initiated to drive sales and to create brand affinity. HKD also continued to create evolving product offers to capture different markets and segments so as to mitigate the impacts of the seasonality cycle.

Operating and Financial Performance

14. As mentioned above, HKD welcomed 5.9 million guests and generated revenues of \$3,630 million in FY11, which was about 20% higher than the previous year. There was \$506 million of earnings before interest, taxes, depreciation and amortisation in FY11, an improvement of \$285 million

from \$221 million in FY10. This was mainly due to strong growth in attendance, hotel occupancy, per capita and per room guest spending and continued cost mitigation efforts. Net finance costs decreased by 58% from \$106 million to \$44 million due to the conversion of part of the loan from Government to ordinary shares following the approval of the Finance Committee in July 2009 and the increase in interest capitalised for expansion projects. This resulted in a \$481 million improvement in net loss from \$718 million in FY10 to \$237 million in FY11. With the conversion of part of the loan from Government to ordinary shares and the capital injection from The Walt Disney Company (TWDC), which is partially offset by the current year's net loss, shareholders' equity increased from \$9,750 million to \$11,899 million as of the end of FY11.

15. HKD is a long-term asset that grows over time and TWDC continues its commitment to the long-term success of HKD. Over the past six years HKD has been investing in building brand awareness and image, and focusing on maintaining high quality services and guest satisfaction.

Economic Benefits

16. HKD has generated substantial economic benefits to Hong Kong since it commenced operation. According to survey statistics from the HKTB and the operational data of HKD, the additional spending of all HKD visitors in Hong Kong (i.e. over and above what would have been spent assuming without HKD) rose by 14% over the previous year to \$10.9 billion² in FY11. Taking into account both the direct and indirect value-added generated from the additional spending, HKD brought about \$6.7 billion of value added to Hong Kong in FY11, equivalent to around 0.4% of Hong Kong's GDP, and created 20 800 jobs (in terms of man-year). Taking the first six years of operation together, the total value added generated by HKD amounted to \$27.3 billion or 0.3% of Hong Kong's GDP. A total of 84 500 jobs (in terms of man-year) were also created over these years, providing considerable job opportunities especially for grassroot workers and the travel industry.

Expansion Plan

17. The expansion of HKD is proceeding as planned. The first new themed area, Toy Story Land, was opened in November 2011 and was well received by guests and trade partners. Grizzly Gulch will be opened in 2012

² All value figures in paragraph 16 are at 2009 prices.

and Mystic Point in 2013 respectively. Upon completion, the expansion will enlarge the existing theme park by about 23% and add more than 30 new attractions, entertainment and interactive experiences, bringing the total number of attractions in HKD to over 100.

Staffing

18. During FY11, HKD's full-time workforce stood at more than 4,500, which has made HKD one of the biggest teams of entertainment and performance talents in Hong Kong. Another 1,700 part-time staff were engaged to manage the increased demand at Halloween, Christmas, Chinese New Year, summer holidays as well as other special occasions.

19. HKD maintains an explicit policy of providing equal opportunity for all employees and offers employment opportunities for persons with disabilities on equal and merit basis, having regard to the job nature and safety. Since opening, HKD had employed more than 320 staff members with disabilities. Efforts on this front will continue vigorously.

Corporate Social Responsibility

20. To reinforce HKD's linkage with the local community, HKD actively engaged in community activities mostly for children and families. Since its opening, HKD has collaborated with over 700 local charities and non-profit organisations in sponsoring free visits to the park and other activities. Two examples of such community relation programmes are –

- (a) "Give a Day. Get a Disney Day" Programme which encouraged about 350,000 volunteer hours; and
- (b) Disney Children's Fund, funded by TWDC, contributing to programmes benefiting children, seniors and families from underprivileged and local community groups. HKD also provided skills and service volunteering support to build the capacity of each project. As of December 2011, \$4 million has been awarded to support 35 projects.

21. HKD has also worked hard in protecting the environment. It has adopted higher "Green Standards", which have resulted in a double-digit reduction in energy consumption compared to its first year of operations. Enhanced education and awareness for green initiatives and creativity was

achieved through the launch of “Friends for Change”, a youth empowerment programme for primary four to form two students in Hong Kong.

22. To contribute to the grooming of local entertainment and performance talents, HKD placed more than 300 internships from local vocational institutions throughout the year to promote talent for the industry. HKD also launched “Disney ImagiNations Hong Kong Design Competition”, a theme park attraction and experience design contest to identify and select the best creative team from design disciplines across the various education institutions for international learning opportunities, including a study trip to the Walt Disney Imagineering headquarters in the United States.

Way Forward

23. HKD will continue to grow through the launch of new themed areas and other unique guest experiences. HKD will stay focused on building the resort to be the premier vacation, entertainment and convention resort destination in the region. HKD will also continue to provide world-class attractions and entertainment and immersive experiences, demonstrate excellence in generating fresh content to attract more guests, and offer exceptional guest service. HKD aspires to evolve into a “must see” resort-wide entertainment destination providing a broad appeal to a wider audience as well as richer and deeper experiences for all guest segments.

Advice Sought

24. Members are invited to note the update on HKD’s operation.

Tourism Commission
Commerce and Economic Development Bureau
January 2012

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2011

KEY HIGHLIGHTS

- Hong Kong Disneyland (“HKDL”) enjoyed record theme park attendance, hotel occupancy and guest spending levels during fiscal 2011
- Revenues increased 20% from the prior year to HK\$3,630 million and earnings before interest, taxes, depreciation and amortisation (EBITDA) more than doubled to HK\$506 million
- HKDL maintained its position as a top tourism destination for visitors to Hong Kong and remains focused on growing its business and establishing its brand as the premier vacation, entertainment and convention resort destination in the region
- The theme park continued to broaden its appeal in fiscal 2011, with the launch of the Fifth Anniversary Celebration, the introduction of the all-new “Flights of Fantasy Parade” and the enhancement of seasonal events
- Major expansion is underway with the first installment based on the popular Disney/Pixar *Toy Story* franchise, Toy Story Land, opened to guests on 18th November 2011 and the second of three phases, Grizzly Gulch, to be completed in the summer of 2012

BUSINESS OVERVIEW

HKDL develops and operates the Disney-branded theme park, themed hotels and associated complex and infrastructure on Lantau Island in Hong Kong. HKDL is owned by Hongkong International Theme Parks Limited (“HKITP”), a joint venture between the Government of Hong Kong Special Administrative Region (“HKSAR”) and The Walt Disney Company (“TWDC”), and is managed by Hong Kong Disneyland Management Limited, a wholly owned indirect subsidiary of TWDC. As of the end of fiscal 2011, HKSAR owns a majority interest of 53% in HKITP, with TWDC owning the remaining 47%. By completion of the expansion plan in 2013, HKSAR’s and TWDC’s ownership stakes are expected to be 52% and 48% respectively, although ending ownership will depend on the aggregate amount of equity contributions made by TWDC pursuant to the expansion plan.

The theme park consists of the following themed lands and area: Adventureland, Fantasyland, Main Street USA, Tomorrowland and Toy Story Land. These areas feature themed attractions, entertainment and interactive experiences, restaurants, merchandise shops, and refreshment stands. Additionally, there are daily parades and a nighttime fireworks extravaganza.

HKDL has two themed hotels: the 400-room Hong Kong Disneyland Hotel and the 600-room Disney’s Hollywood Hotel.

OPERATIONAL HIGHLIGHTS

- Having completed its sixth full year of operations since its grand opening in 2005, HKDL remains focused on being the premier vacation, entertainment and convention resort destination in Hong Kong. As one of the most popular paid destinations in Hong Kong, HKDL is an integral component in supporting Hong Kong’s position as one of the world’s top cities for leisure tourists and business visitors. HKDL is one of the Top 15 most visited theme parks in the world, the sixth in Asia and the first in the Greater China region based on annual attendance, according to a public report. HKDL will continue to market its world-class attractions, entertainment and interactive experiences along with lodging, dining and retail operations to grow its business. With the Toy

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Story Land launch in November 2011 and the opening of the other two themed areas through 2013, the resort will continue to refresh and expand upon its offerings in order to attract new guests and generate even greater repeat visitation, recognising an evolving marketplace and competitive environment.

- Aimed at driving visitation from local, mainland China and Southeast Asia regions as well as enhancing the guest experience, HKDL launched the following key events and programmes in different seasonal periods to generate guest excitement and ongoing visitation interest throughout the fiscal year:
 - held “Disney’s Haunted Halloween” annual event at the beginning of fiscal 2011, which for this year included a new pyrotechnic show and the introduction of the Disney Villain Maleficent to resort guests;
 - celebrated the December holiday season with the “Sparkling Christmas – A Storybook Fantasy” event, in which Duffy the Disney Bear made his first appearance at HKDL;
 - launched the year-long “Celebration in the Air” to commemorate HKDL’s Fifth Anniversary, debuting the all-new “Flights of Fantasy Parade” and “Tinker Bell’s Pixie Dusted Castle”, featuring the fairy’s first appearance at HKDL;
 - offered the “Year of the Rabbit Chinese New Year Celebration” in February 2011, integrating both Chinese tradition and Disney entertainment elements, a strategy which increased HKDL’s penetration from mainland China and led to record attendance for this event;
 - continued the successful “Star Guest Program” which offered guests a variety of “Magical Moments” and “Star Experiences” throughout the spring season; and
 - marked the theatrical release of the Disney/Pixar film *Cars 2* with the “Lightning McQueen “Live”!” event during the summer school-break period.
- To prepare for the successful launch of Toy Story Land, more than 150 additional operating staff were hired and more than 10,000 hours of training were provided. The resort also offered various educational campaigns and training sessions to the larger staff base to enhance their product knowledge of Toy Story Land. To heighten guest awareness of Toy Story Land, an integrated marketing and sales campaign was implemented in late fiscal 2011.
- In addition to its strategy to grow the business, HKDL remains committed to contributing to Hong Kong and the communities it serves, with a focus on outreach programmes including those related to underprivileged families, environmental awareness and volunteerism. HKDL’s deep involvement in community work has become an integral part of Hong Kong’s overall corporate social responsibility landscape. Key accomplishments during fiscal 2011 include:
 - placed more than 300 internships from local vocational institutions throughout the year to promote talent for the industry;
 - encouraged the contribution of approximately 350,000 volunteering hours by the public through the successful “Give a Day. Get a Disney Day” programme;
 - enhanced education and awareness for green initiatives and creativity through the launch of the “Friends for Change” programme in local schools; and
 - launched the “Disney ImagiNations Hong Kong Design Competition” to identify and select the best design team from local educational institutions to study at the Walt Disney Imagineering headquarters in the United States.

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- On average, HKDL employed more than 4,500 full-time and 1,700 part-time staff during this fiscal year, making the resort one of Hong Kong's largest employers in the entertainment industry. HKDL is committed to developing a highly skilled and quality workforce, providing more than 300,000 hours of professional and technical training during the year.
- HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2011, 92% of theme park guests and 97% of hotel guests reported that their overall experience was “excellent”, “very good”, or “good”.
- In recognition of its world-class assets, design and technical achievements, distinctive guest service, commitment to the community and high family appeal, HKDL received 60 awards from local and international industry associations and publications during fiscal 2011. In addition to those already mentioned, these honors included Asia’s Best Brand Award, presented by CMO Asia; the Best Client Satisfaction Model of China Tourism Industry, awarded by China Industry Economy Research Centre of China Industrial Newspapers Association and China Service Industry Public Satisfaction Survey Organizing Committee; and for the second time, the Gold Award, given by Hong Kong Awards for Environmental Excellence.

THEME PARK EXPANSION

Construction continues on the expansion of HKDL, which will ultimately add three new themed areas and increase the total size of the theme park by about one-fourth. The new themed areas will deliver one-of-a-kind experiences and cutting edge technology to guests, as Toy Story Land opened on an Asia-exclusive basis and Grizzly Gulch and Mystic Point will open on a worldwide-exclusive basis. Toy Story Land officially launched on 18th November 2011, with Grizzly Gulch scheduled to come online by summer 2012 and Mystic Point anticipated to debut in spring 2013, one year earlier than originally planned. The expansion of HKDL is expected to not only contribute further to the significant appeal of HKDL as a tourist destination, but also bring direct economic benefits to Hong Kong by providing a substantial number of construction and related jobs in the near-term with additional resort-based employment positions once expansion is complete.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 1st October 2011, HKDL achieved record attendance, occupancy and per capita and per room guest spending. With considerable growth in all guest origins including local, mainland China and international markets, attendance reached 5.9 million, representing a 13% increase over prior year. This year-over-year increase in park visitation exceeded the level of growth in overnight leisure arrivals into Hong Kong during this period and reflected the resort’s effective marketing and sales programmes and other factors. Occupancy was 91%, nine percentage points above prior year. Higher volumes, combined with increased guest spending and cost management, contributed to revenue growing 20% to HK\$3,630 million, more than doubling EBITDA from fiscal 2010 to HK\$506 million, and reducing the net loss by 67% to HK\$237 million.

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ANNUAL BUSINESS REVIEW
FOR THE FISCAL YEAR 2011**

Key revenue drivers for the fiscal year¹ were as follows:

Key revenue drivers	2011	2010
Park attendance (in millions)	5.9	5.2
Hotel occupancy (percentage)	91%	82%
Year-on-year change for key revenue drivers	Percentage change	
	2011	2010
Park attendance	13%	13%
Per capita guest spending	6%	7%
Available room nights	-	(2%)
Per room guest spending	10%	4%
Origin of visitors as a percentage of total attendance	2011	2010
Local	31%	33%
Mainland China	45%	42%
International	24%	25%

Key financial results for the fiscal year were as follows:

(in millions)	2011 HK\$	2010 HK\$	Variance HK\$
Revenues	3,630	3,013	617
Costs and expenses	3,124	2,792	332
Earnings before interest, taxes, depreciation and amortisation	506	221	285
Depreciation and amortisation	699	833	(134)
Net finance costs	44	106	(62)
NET PROFIT / (LOSS)	(237)	(718)	481
Non-current assets	14,878	13,893	985
Current assets	1,110	865	245
Current liabilities	(1,517)	(1,336)	(181)
Non-current liabilities	(2,572)	(3,672)	1,100
SHAREHOLDERS' EQUITY	11,899	9,750	2,149

Revenues

HKDL generates revenues predominantly from the sale of admissions to the theme park, room nights at the hotels, and merchandise, food and beverage sales at the theme park and hotels. For fiscal 2011, total revenues increased by 20%, or HK\$617 million, to HK\$3,630 million primarily driven by increased park attendance and hotel occupancy, and higher theme park per capita and hotel per room guest spending.

¹ The fiscal year is from October to September and ends on the Saturday closest to 30th September of each year.

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Costs and expenses

Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The increase of 12%, or HK\$332 million, to HK\$3,124 million for fiscal 2011 was attributable to higher costs of sales and other volume-related operating and support costs, partially offset by savings from cost mitigation efforts.

Depreciation and amortisation

Depreciation and amortisation decreased by 16%, or HK\$134 million, to HK\$699 million mainly due to certain assets becoming fully depreciated in fiscal 2011.

Net finance costs

Net finance costs consist of interest expense and other borrowing costs, net of interest income. The decrease of 58%, or HK\$62 million, from fiscal 2010, to HK\$44 million in fiscal 2011, reflected the conversion of a portion of the HKSAR-provided loan into equity during fiscal 2011, and an increase in interest capitalised for expansion projects.

Net Profit / (Loss)

Net loss for the year decreased by 67%, or HK\$481 million, to HK\$237 million in fiscal year 2011. This was largely attributable to revenue growth, cost management efforts, lower depreciation and amortisation and reduced net finance costs.

Non-current assets

Non-current assets include property, plant and equipment, leasehold land and projects in progress. Non-current assets increased by 7%, or HK\$985 million, to HK\$14,878 million due to the development of expansion projects and addition of operational assets, partially offset by the depreciation and amortisation charges during the year.

Current assets

Current assets consist of inventories, trade and other receivables, cash and cash equivalents. The increase of 28%, or HK\$245 million, from fiscal 2010 to HK\$1,110 million in fiscal 2011 was mainly attributable to a net increase in cash during the year. (See FINANCIAL LIQUIDITY section for more details)

Current liabilities

Current liabilities consist of trade and other payables and deferred revenues. The increase in current liabilities of 14%, or HK\$181 million, to HK\$1,517 million was primarily due to increased deferred revenues and increased payables in relation to the construction of expansion projects and operating expenses.

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Non-current liabilities

Non-current liabilities primarily represent the unsecured long-term loan from HKSAR which is scheduled to mature on dates through 2030. The decrease of 30%, or HK\$1,100 million, to HK\$2,572 million was primarily attributable to the conversion of a portion of this loan into ordinary shares, partially offset by deferred interest expense during the year.

FINANCIAL LIQUIDITY

Summary of the changes in cash and cash equivalents was as follows:

(in millions)	2011 HK\$	2010 HK\$	Variance HK\$
Cash provided / (used) by:			
Operating activities	484	546	(62)
Investing activities	(1,444)	(773)	(671)
Financing activities	1,193	513	680
NET INCREASE IN CASH AND CASH EQUIVALENTS	233	286	

Cash and cash equivalents increased by 35%, or HK\$233 million, to HK\$908 million at the end of fiscal 2011. The increase was primarily attributable to a capital injection of HK\$1,193 million from TWDC to fund the expansion and net cash generated from operating activities. TWDC received ordinary shares of HKITP in exchange for its capital contribution, and an equivalent amount of the HKSAR-provided loan was converted into ordinary shares. This increase in net cash was partially offset by cash used in investing activities, including expansion and other capital spending, in fiscal 2011.

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DISCLAIMER

This Annual Business Review has been prepared for information purposes only. The information set forth in this Annual Business Review presents a summary of certain operational and financial information relating to HKDL and does not represent the complete financial results of HKDL reflected in the audited financial statements of HKDL.