Panel on Economic Development
Follow-Up Actions to the Meeting on 24 February 2014

Update on Hong Kong Disneyland

At the meeting of the Panel on Economic Development on the captioned subject held on 24 February 2014, Members requested the Administration and the Hong Kong Disneyland Management Limited (HKDML) to provide supplementary information in relation to the following –

(a) the percentage of disabled persons among all HKDL employees;

(b) the number and percentage of part-time HKDL employees who are not employed under a continuous contract as defined under the Employment Ordinance, Cap. 57 (i.e. those who work less than 18 hours in a week over a period of four weeks);

(c) the number of HKDL employees to be recruited who are (i) full-time; (ii) part-time employees; and (iii) employees falling under (b) above;

(d) the cost of building the existing two resort hotels in the HKDL and the profits that are being derived from their operations; and

(e) the cost-and-profit analysis of the proposed new hotel of the HKDL.

The supplementary information provided by the HKDML is attached at Annex for Members' perusal.

Tourism Commission
April 2014

(a) The percentage of disabled persons among all HKDL employees

The HKDL currently has more than 100· employees with disabilities, representing about 2% of the full-time staff and 1.4% of the total workforce. Since 2007, the HKDL has launched the "Apprenticeship for People with Disabilities" Program and in 2013 such recruitment quota of disabled persons has increased by 50%. The HKDL will continue to deploy additional resources to employ more disabled persons to work in the resort and is also working on plans to provide more job opportunities in hotel operations for disabled persons.

(b) The number and percentage of part-time HKDL employees who are not employed under a continuous contract as defined under the Employment Ordinance, Cap. 57 (i.e. those who work less than 18 hours in a week over a period of four weeks)

The HKDL currently employs an average of about 1 400* part-time staff who are not under a continuous contract, accounting for about 19% of the total workforce. While the employment of these part-time staff is mainly to meet the short-term manpower needs during festive periods such as the Lunar New Year, Halloween and Christmas, it is also one of the ongoing collaboration of the HKDL with the local vocational and tertiary institutions to provide short-term internship opportunities to their students.

**The number varies as the 18 hours are counted in every rolling 4 weeks.*

(c) The number of HKDL employees to be recruited who are (i) full-time, (ii) part-time employees and (iii) employees falling under (b) above

During Fiscal year 2013 (i.e. October 2012 to September 2013), the HKDL employed, on average, more than 4 800 full-time and 2 600 part-time staff. In Fiscal year 2014 (i.e. October 2013 to September 2014), the HKDL plans to recruit respectively an additional 7% and 6% of full-time and part-time staff. The number of part-time staff to be recruited under a non-continuous contract will vary according to the festive period manpower needs, and the extent of collaboration of the HKDL with the local vocational and tertiary institutions. We expect such number be similar to that in Fiscal Year 2013 (i.e. October 2012 to September 2013).

(d) The cost of building the existing two resort hotels in the HKDL and the profits that are being derived from their operations
(e) The cost-and-profit analysis of the proposed new hotel of the HKDL

At present, there are two hotels at the HKDL, namely the Hong Kong Disneyland Hotel (DLH) and Disney's Hollywood Hotel (DHH), which both hotels were opened in September 2005. In the past nine years, the costs of labour and materials in Hong Kong have significantly increased due to heightened demands in construction and infrastructure projects throughout the territory. Based on published tender price indices (which track the trend of construction project costs and the development costs), we estimate the cost per key of building DLH and DHH, if it were carried out today, would be around HK$6.7 million and HK$2.7 million respectively. The proposed new hotel will be positioned between the two existing ones and its cost per key is expected to be HK$5.7 million, which is also between the two existing hotels.

As an integrated resort, the existing two hotels in the HKDL are managed holistically with the rest of the resort and share a number of centralised and support functions with the theme park. The Management Company is focused on driving the overall performance of the resort as opposed to that of a single hotel. Hotel operations is one of the key revenues drivers at the HKDL and in the past three years DLH and DHH have both achieved average annual occupancies of over 90%, contributing to remarkable revenue and net profit growth of the HKDL. The Management Company expects that all three hotels will achieve healthy occupancies in medium term, as driven by persistent growths in both theme park attendance and hotel penetration of theme park guests. Assuming a steady growth in tourist arrivals, attendance and per guest spending, the HKDL will continue to be profitable after the opening of the third hotel and the HKDL's brand and positioning as a premier leisure and vacation destination in the region will be strengthened.

Driven by theme park attendance growth and increased hotel penetration of theme park guests, the new hotel at the HKDL will generate revenue through room rentals and sales from merchandise as well as food & beverages sales. On the cost side, the new hotel will also benefit from leveraging the scale economies of the HKDL's resort-wide infrastructure, management overhead, as well as brand and marketing awareness. As such, it is expected to be accretive to the overall resort margins over time.

In evaluating any potential new investment at the HKDL, one of the most important criteria that will be taken into account is the expected financial returns that the investment could generate. In order for a project to move forward, it must support the resort's brand and strategy and be able to deliver attractive returns on invested capital which is acceptable to the shareholders, for example, by at least meeting the cost of capital. While The Walt Disney Company does not disclose its cost of capital, the average analyst estimate is 8%, and the expectation on the third hotel is to deliver returns at or above that threshold.

In addition, the new hotel will generate additional economic benefits for Hong Kong through increasing the supply of hotel rooms and inducing incremental tourist spending. The new hotel will also create 600 to 700 employment opportunities for the local labour market when it commences operation. These will further enhance the HKDL's contribution to the economy of Hong Kong in the future. Taking the first eight years of operation together, the total value added generated by the HKDL amounted to $50.4 billion or 0.35% of Hong Kong's GDP. During the same period, a total of 148 900 jobs (in terms of man-years) were also created.

Hong Kong Disneyland Management Limited
April 2014