

立法會
Legislative Council

LC Paper No. CB(1)899/13-14(06)

Ref : CB1/PL/EDEV

Panel on Economic Development
Meeting on 24 February 2014

Background brief on Hong Kong Disneyland

Purpose

This paper provides an update on the background information of the Hong Kong Disneyland ("HKD") and summarizes the major concerns and views of Members related to the operation of HKD.

Background

Development of HKD

2. In December 1999, the Government entered into an agreement with The Walt Disney Company ("WD") to build HKD (Phase 1) at Penny's Bay¹. A joint venture company, the Hongkong International Theme Parks Limited ("HKITP"), was set up for this purpose². The then estimated total project cost of developing HKD Phase 1 was \$14.1 billion, in addition to an estimated cost of \$4 billion for reclaiming the land for Phase 1 of the project. The Government and WD had entered into five main agreements covering management, licensing of intellectual property, rights and obligations of shareholders, loan arrangements as well as the parties' responsibilities and undertakings for the development of HKD. The related financial and

¹ The agreement anticipates a Phase 2 project, which will include a second Disney theme park, additional hotels and an expansion of the retail, dining and entertainment complex. Accordingly, the Hongkong International Theme Parks Limited is given an Option to buy the site immediately to the east of the Phase 1 Site for development of the second phase.

² Under the agreement, the Government owns 57% of the shares in HKITP while WD owns 43%. HKITP operates under the supervision of a Board of Directors, which comprises five Government directors, four Disney directors and two independent non-executive directors.

staffing proposals were endorsed by the Public Works Subcommittee and approved by the Finance Committee ("FC") on 17 and 26 November 1999 respectively.

Expansion plan

3. The Government and WD reached agreement in July 2009 for the expansion plan. Under the relevant financial arrangements, WD would contribute all the necessary new capital as equity for the construction of the new attractions as well as sustaining the park's operation during the construction years, and convert the entire outstanding balance of the WD loan (i.e. \$2.76 billion)³ to equity. The Government would convert its loan to equity after retaining a balance of not less than \$1 billion. The Government would continue to be a majority shareholder of HKITP with ownership of about 52%⁴. The financial arrangements for the expansion of HKD were approved by FC at the meeting on 10 July 2009.

4. The three new themed areas⁵ under the expansion proposal are Toy Story Land, Grizzly Gulch and Mystic Point, and were opened in November 2011, July 2012 and May 2013 respectively. These themed areas have enlarged the area of the existing theme park by about 23% and added more than 30 new attractions, entertainment and interactive experiences, bringing the total number of attractions in HKD to over 100. On 8 October 2013, HKD announced the launch of Disney's first Marvel themed area, the Stark Expo, which is based on the "Iron Man" character. The new themed area is set to open in late 2016. The expansion project will be funded by HKD's operating surplus.

5. To further enhance its appeal to visitors, HKD will launch a new night-time parade in 2014. HKD is also considering the next phase of expansion within its existing site, including potential plans for new

³ Following FC's approval in November 1999, the Government and WD provided \$3.25 billion and \$2.45 billion respectively as equity to establish the HKITP. In addition to the equity injection, the Government provided approximately \$5.62 billion as a loan to HKITP, and received \$4 billion in subordinated equity, representing the land premium for the Phase 1 site. HKITP obtained a commercial term loan of \$2.3 billion and a revolving credit facility of \$1 billion in 2000. In September 2008, the shareholders reached agreement to replace the loan and revolving credit facility by a loan from a subsidiary company of WD. The outstanding amount of the WD loan was \$2.76 billion in 2012.

⁴ The Government's shares in HKITP will be lowered from 57% to 52% under the expansion plan.

⁵ The Government and WD agreed that two of the new themed areas, i.e. "Grizzly Gulch" and "Mystic Point", would be exclusive amongst Disney theme parks worldwide and the remaining one, i.e. "Toy Story Land", would be exclusive amongst Disney theme parks within the Asian region for five years after their respective openings.

attractions and hotel development in the coming few years. HKD is also studying the guest demand for hotel rooms to map out its future hotel development.

Operating and financial performance

6. According to the Administration's assessment made in 1999, HKD would generate huge economic benefits for the Hong Kong economy, estimated to reach \$148 billion over 40 years⁶. The accumulated numbers of visitors received by HKD since its opening on 12 September 2005 are set out below –

| Year⁷ | Accumulated number of attendance |
|---|---|
| 2005-2006 | 5.2 million |
| 2006-2007 | 9.2 million |
| 2007-2008 (as at end of November 2008) | 14.5 million |
| 2008-2009 (as at end of December 2009) | 19 million |
| 2009-2010 (as at end of December 2010) | 25 million |
| 2010-2011 (as at end of December 2011) | 31 million |
| 2011-2012 (as at end of December 2012) | 38 million |

The two hotels at HKD recorded a combined occupancy rate of 92% in 2011-2012, representing an increase of one percentage point from the previous year.

7. To support HKITP, WD has waived the management fees and deferred payment of royalties for two years (i.e. 2007-2008 and 2008-2009). As at the end of 2007, HKD has also negotiated with commercial lenders to

⁶ The economic benefits of \$148 billion over 40 years were calculated on the "base case" scenario developed in 1999. Under the "base case" scenario, it was estimated that HKD would attract an attendance of 5.2 million in its first year of operation and such attendance would rise steadily thereafter to 5.47 million in 2006 and 10.57 million in 2044. At the meeting of the former Panel on Economic Services on 29 July 2002, members were informed that WD considered the base case forecast conducted in 1999 too conservative and had therefore revised the attendance figure for the first year upward to 5.6 million.

⁷ Each year of operation of HKD starts in October and ends in the next September unless specified.

re-schedule its commercial term loan facility and the revolving credit facility with a view to reducing interest expenses. In September 2008, an agreement was reached between the Government and WD, under which the latter loaned \$3.26 billion (consisting of a term loan and revolving credit facility) to HKITP. The loan was used mainly to repay the HKITP's commercial loan.

8. As regards financial performance in 2011-2012, HKD generated a revenue of \$4.27 billion, representing an increase of 18% or \$642 million higher than the previous year. The earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$876 million, substantial improvement from \$506 million in 2010-2011. In 2011-2012, HKD achieved a net profit of \$109 million, the first ever since its opening in September 2005, representing an improvement of \$346 million against the net loss of \$237 million in 2010-2011. Net finance costs decreased by 89% from \$44 million to \$5 million due to the conversion of part of the loan from Government to ordinary shares following the approval of FC in July 2009 and the increase in interest capitalized for expansion projects. This resulted in a net profit of \$109 million for the first time since the park's opening in September 2005. With the conversion of part of the loan from Government to ordinary shares and the capital injection from WD, together with the net income received, shareholders' equity increased from \$11.90 billion to \$13.12 billion in 2011-2012.

Economic benefits

9. According to the survey statistics from Hong Kong Tourism Board and the operational data of HKD, the additional spending of all HKD visitors in Hong Kong rose by 12% to \$12.9 billion in 2011-2012. HKD brought about \$8 billion of direct and indirect value added to Hong Kong in 2011-2012, equivalent to around 0.42% of the Gross Domestic Product ("GDP"), and created 24 500 jobs (in terms of man-year). Taking the first seven years of operation together, the total value added generated by HKD since opening amounted to \$36.8 billion or 0.3% of GDP. A total of 114 000 jobs (in terms of man-year) had been created over these years, providing considerable job opportunities especially for grassroots workers and the travel industry.

Staffing

10. In 2011-2012, HKD's full-time workforce was approximately 4 700. It also engaged 2 200 part-time staff to cope with the increased demand at Halloween, Christmas, Chinese New Year, summer holidays as well as other special occasions. Since opening, HKD had employed more than 350 disabled staff members.

Concerns expressed by Members in previous discussions

11. Members have previously raised questions at Council meetings on issues related to the operation and performance of the park, public transport services for visitors, employment matters, financial and governance arrangements as well as injection of funds into HKD. The Panel on Economic Development ("the Panel") has deliberated on related issues when the Administration reported on the operation of HKD each year, and the last update by HKD was discussed at the Panel meeting held on 28 October 2013.

Park attendance and marketing strategy

12. At previous Panel meetings, members had urged HKD to make better efforts to ensure continued improvement in park patronage. The Administration advised that with improved promotion and operation, attendance and guest spending in HKD would further increase.

13. Some members expressed concern about the cultural conflicts between visitors from the Mainland and local people, and queried what measures HKD would adopt to ease the tension. HKD had responded that HKD staff were well trained to serve visitors from different places, including those from the Mainland, and that instances of cultural conflict among visitors were rare.

14. Some Panel members had suggested that HKD should incorporate more local cultural elements to suit the taste of the local public, while directing more marketing efforts and resources to expand the Mainland market. Some members suggested that features unique and exclusive to HKD should be provided. One member asked if HKD might build a Marvel Land themed area to feature other Marvel characters that could be featured in future.

15. The Administration and HKD advised the Panel that HKD would enhance its competitive edge through maintaining a high standard of service. HKD was the only theme park where Cantonese, English and Putonghua were used; and catering needs of different ethnic groups, such as the provision of Halal menu, were taken care of. HKD would widen the source of guests by stepping up publicity and promotion efforts. As regards HKD's unique features, members noted that the "Grizzly Gulch" and "Mystic Point" were exclusive features of HKD, and the 3-D Iron Man ride would be set against the skyline of Hong Kong. HKD advised members that WD had many other popular themes that could be featured in HKD in future, such as

Avatar and Star Wars. In response to a member's suggestion that HKD should involve more local creative talents in its production or projects, HKD advised the Panel that local creative talents had in fact been engaged in the last HKD expansion project.

Other access to the park

16. To attract more visitors to HKD, some members considered it important to enhance the accessibility of the theme park through the provision of different transport facilities, such as linking up HKD by ferries with the SkyPier at the Hong Kong International Airport. The Administration explained that the SkyPier was located in the Restricted Area of the Hong Kong International Airport, and provided ferry services for air-to-sea and sea-to-air transit passengers travelling between Hong Kong and the Pearl River Delta and Macao. There was no plan to operate a port at the SkyPier for general immigration purpose. However, the Administration would explore with HKD on how the cross-boundary facilities in Lantau Island, which would be provided by the Hong Kong-Zhuhai-Macao Bridge when it was commissioned, could be used to bring in visitors from the west bank of the Pearl River to HKD.

Park management

17. Noting that park patronage had continuously been increasing, some members raised concern about over-crowdedness during major holidays and queried whether precautionary measures would be implemented to guide visitors in case HKD had to suspend admission temporarily because of an excessive number of visitors. The Administration advised that operators of major tourist attractions, including HKD, had been asked to draw up measures to deal with a surge of visitors.

Financial performance

18. As regards HKD's financial performance in 2011-2012, members expressed concern about HKD's relatively low profit vis-à-vis the high and increasing operating expenses as well as the high construction cost of the new themed areas. Members queried how the park would control its budget more prudently, and whether HKD would increase ticket price to cover the cost. Members noted HKD's response that a substantial amount of its earnings had to be subtracted for depreciation and amortization, resulting in an apparent low profit margin, and on the other hand, HKD had adopted various cost control measures in the areas of personnel management, energy management as well as procurement and merchandising. Whether the ticket price would be adjusted would depend on the prevailing market conditions,

demand of visitors and the price strategies of other competing theme parks in the region. The Administration explained that HKD had turned from deficit to profit in 2011-2012, and the operating environment had been improving all the time. Besides, HKD's contribution had to be seen in the context of the economic benefits it helped generated for Hong Kong.

19. Members noted that WD had waived the management fees for HKD and allowed HKD to defer the payment of royalties. A member sought information on the formula for calculating such payment and the amount of management fee payable to WD since the opening of HKD. The Administration advised that HKD under the agreement between the Government and WD, the formula for calculation of management fee payable to the Hong Kong Disneyland Management Limited ("HKDML"), which managed and operated HKD, was performance-based. In 2009, to encourage the management to deliver results, the Government obtained WD's agreement to revise the formula for calculating the base management fee, i.e. to replace the old formula of 2% of gross revenues by 6.5% of EBITDA. According to the Administration, the amount of management fee payable to HKDML since the opening of HKD, being a piece of commercially sensitive information, could not be disclosed under the agreement between the Government and WD.

20. At the Panel meeting held on 28 October 2013, one member requested the Administration and HKD to provide detailed financial appraisal in respect of individual new projects or themed areas, such as the Stark Expo. While the Administration advised that the construction costs of the Stark Expo would be financed from HKD's operating surplus without additional financial support from the Government or WD, HKD declined to disclose the financial details of the project on ground of commercial sensitivity.

Staffing

21. Members noted that HKD had, since 2007, co-operated with a number of non-governmental organizations in creating an Apprenticeship Programme for persons with disabilities. Members queried whether HKD would increase the number of staff with disabilities or laid down a ratio for employment of persons with disabilities. Members were advised that under the Apprentice Programme, 20 disabled persons were recruited each year for training so that they might take up employment in HKD. The quota for the Programme would be increased to 30 in 2013. HKD aimed to increase the ratio of staff with disabilities to 3.5%. A member commented that the overall ratio of disabled staff among HKD posts that were suitable for disabled persons was still on the low side and that the proportion of disabled staff should be increased. HKD advised the Panel that the number of

disabled staff hired by HKD so far was in the range of several hundreds. Some of the trainees who completed the Apprentice Programme would be retrained. Persons with disabilities might also be recruited through the normal recruitment exercises.

22. One member asked if shuttle bus service between Tung Chung and HKD would be provided to tap the local manpower resources. HKD advised that 6.6% of its staff lived in Tung Chung and the Mass Transit Railway ("MTR") was their main mode of transportation to travel between HKD and Tung Chung. According to HKD, all HKD staff might purchase a monthly MTR pass at a cost of HK\$520 and enjoyed a HK\$2 discount provide by HKD on a return trip with the MTR. HKD did not have plan to arrange shuttle bus service between the Park and Tung Chung at the moment.

Expansion plan

23. At the Panel meeting held on 25 February 2013, members were briefed on the progress of HKD's expansion plan. One member queried whether the next phase of HKD expansion would include hotel development and whether land was available at HKD to meet the expansion needs. The Administration confirmed that details of the next phase of HKD's expansion plan were still being considered and the option of hotel development was open; a number of proposals for new attractions were also being considered. In any case, land was available at the HKD site for expansion purpose.

24. Members also expressed concern about the business viability of HKD given the competition from local and regional theme parks, and particularly from the Shanghai Disneyland which was expected to be commissioned in 2015. They stressed the importance of improving the park's operation and management in attracting and retaining patrons. Some members requested the Administration to allocate more land for further expansion and development of HKD. One member asked whether, and, if so when, the Administration would develop another theme park in a vacant site adjacent to HKD earmarked for its phase 2 development. The Administration advised that the current priority was for HKD to optimize the use of the existing site. The vacant land in question was reserved for HKD's phase 2 development, and the Administration would start discussion with HKD to explore longer term development options in the site.

Latest development

25. At the meeting on 24 February 2014, the Administration will update the Panel on the operation and the latest development of HKD.

References

26. The relevant papers are available at the following links –

Administration's paper on 2014 Policy Address - Policy Initiatives of the Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau (LC Paper No. CB(1)751/13-14(03))

<http://www.legco.gov.hk/yr13-14/english/panels/eDEV/papers/eDEV0127cb1-751-3-e.pdf>

Supplementary information provided by the Administration in follow-up to the Panel meeting on 28 October 2013 (LC Paper No. CB(1)664/13-14(01))

<http://www.legco.gov.hk/yr13-14/english/panels/eDEV/papers/eDEV1028cb1-664-1-e.pdf>

Minutes of Panel meeting on 28 October 2013 (LC Paper No. CB(1)324/13-14)

<http://www.legco.gov.hk/yr13-14/english/panels/eDEV/minutes/eDEV20131028.pdf>

Background Brief on HKD dated 28 October 2013 (LC Paper No. CB(1)120/13-14(04))

<http://www.legco.gov.hk/yr13-14/english/panels/eDEV/papers/eDEV1028cb1-120-4-e.pdf>

Administration's paper on update on the development of Hong Kong Disneyland (LC Paper No. CB(1)120/13-14(03))

<http://www.legco.gov.hk/yr13-14/english/panels/eDEV/papers/eDEV1028cb1-120-3-e.pdf>