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**Panel on Economic Development**  
**Meeting on 28 October 2013**

**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 Bay<sup>1</sup>. A joint venture company, the Hongkong International Theme Parks Limited ("HKITP"), was set up for this purpose<sup>2</sup>. 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 staffing proposals were considered by the former Panel on Economic

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<sup>1</sup> 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.

<sup>2</sup> 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.

Services<sup>3</sup> at the meetings on 11 and 15 November 1999, and 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)<sup>4</sup> 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%<sup>5</sup>. The financial arrangements for the expansion of HKD were approved by FC at the meeting on 10 July 2009.

4. The three new themed areas<sup>6</sup> 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. On 8 October 2013, HKD announced a new theme area based on Iron Man which is set to open in late 2016.

5. HKD is considering the next phase of expansion within its existing site, including potential plans for new 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.

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<sup>3</sup> The Panel on Economic Services was renamed as the Panel on Economic Development with effect from the 2007-2008 session.

<sup>4</sup> 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.

<sup>5</sup> The Government's shares in HKITP will be lowered from 57% to 52% under the expansion plan.

<sup>6</sup> 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.

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 years<sup>7</sup>. The accumulated numbers of visitors received by HKD since its opening on 12 September 2005 are set out below –

<b>Year<sup>8</sup></b>	<b>Accumulated number of attendance</b>
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 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.

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<sup>7</sup> 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.

<sup>8</sup> Each year of operation of HKD starts in October and ends in the next September unless specified.

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 ("HKTB") 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 grassroot 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 25 February 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 increase in operating costs of HKD, especially after its expansion. Members noted that HKD had been examining various cost control measures in the areas of personnel management, energy management as well as procurement and merchandising.

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. At the Panel meeting held on 25 February 2013, 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.

15. 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. HKD advised that discussion was being made with the relevant authorities regarding the proposal.

16. Members also expressed concern about the business viability of HKD given the competition from local and regional theme parks, and stressed the importance to improve the park's operation and management. The Administration advised at the Panel meeting held on 25 February 2013 that HKD and the Government had already started the expansion plan and HKD had enhanced its promotion work in the Mainland, as well as the Asian region.

### Park management and financial performance

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. On members' concern about nuisance caused by HKD's firework display to nearby residence, HKD advised that it had been monitoring the ambient air quality in connection with the firework displays and HKD considered the results satisfactory so far.

18. As regards HKD's financial performance, at the Panel meeting held on 25 February 2013, one member pointed out HKD's relatively low profit vis-à-vis the high operating expenses, and queried how the park would control its budget more prudently. 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. Furthermore, 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. At the Panel meeting on 25 February 2013, members noted that WD had waived the management fees for HKD and allowed HKD to defer the payment of royalties. A member sought for information on the formula for calculation 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 before interest, taxes, depreciation and amortization. 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.

### Staffing

20. At the Panel meeting held on 24 January 2011, members noted that HKD had, since 2007, co-operated with a number of non-government

organizations in creating an Apprenticeship Programme for persons with disabilities. Under the Programme, individuals with disabilities were provided nine months of paid job training with transport allowances in tailor-made roles. At the Panel meeting on 25 February 2013, 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. Persons with disabilities might also be recruited through the normal recruitment exercises. HKD aimed to increase the ratio of staff with disabilities to 3.5%.

21. 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

22. 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.

#### **Latest development**

23. At the meeting on 28 October 2013, the Administration will update the Panel on the operation of HKD, and the latest position regarding expansion.

## References

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

Supplementary information provided by the Administration in follow-up to the Panel meeting on 25 February 2013 (LC Paper No. CB(1)1743/12-13(01))

<http://www.legco.gov.hk/yr12-13/english/panels/eDEV/papers/eDEV0225cb1-1743-1-e.pdf>

Minutes of Panel meeting on 25 February 2013 (LC Paper No. CB(1)1318/12-13)

<http://www.legco.gov.hk/yr12-13/english/panels/eDEV/minutes/eDEV20130225.pdf>

Background Brief on HKD dated 25 February 2013 (LC Paper No. CB(1)565/12-13(06))

<http://www.legco.gov.hk/yr12-13/english/panels/eDEV/papers/eDEV0225cb1-565-6-e.pdf>

Paper on "Update on HKD" (LC Paper No. CB(1)565/12-13(05))

<http://www.legco.gov.hk/yr12-13/english/panels/eDEV/papers/eDEV0225cb1-565-5-e.pdf>

Paper on "Update on proposed expansion of HKD" (LC Paper No. CB(1)2090/08-09(01))

<http://www.legco.gov.hk/yr08-09/english/panels/eDEV/papers/eDEV0630cb1-2090-1-e.pdf>

Paper on "Update on HKD" (LC Paper No. CB(1)808/11-12(05))

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/papers/eDEV0117cb1-808-5-e.pdf>

Background Brief on HKD dated 17 January 2012 (LC Paper No. CB(1)808/11-12(06))

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/papers/eDEV0117cb1-808-6-e.pdf>

Minutes of Panel meeting on 17 January 2012 (LC Paper No. CB(1)1602/11-12(06))

<http://www.legco.gov.hk/yr11-12/english/panels/eDEV/minutes/eDEV20120117.pdf>



Supplementary information provided for Panel meeting on 17 January 2012  
(LC Paper No. CB(1)2294/11-12(01))

<http://www.legco.gov.hk/yr11-12/english/panels/e/dev/papers/e/dev0117cb1-2294-1-e.pdf>

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