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**Panel on Economic Development**  
**Meeting on 16 February 2015**

**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 Hong Kong Disneyland Management Limited ("HKDML"), which is wholly-owned by WD, is responsible for the day-to-day operation of HKD. The Board of HKITP exercises a supervisory role to the operation of HKDML.

3. 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

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<sup>1</sup> The agreement has anticipated a phase two project, which will include a second Disney theme park, additional hotels and an expansion of the retail, dining and entertainment complex. Accordingly, HKITP is given an option to buy the site immediately to the east of the phase 1 site for development of phase 2.

<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.

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

#### Expansion plans and new initiatives

4. The Government and WD reached an agreement in July 2009 for an expansion plan. Under the relevant financial arrangements, WD has contributed 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 converted the entire outstanding balance of the WD loan (i.e. \$2.76 billion)<sup>3</sup> to equity. The Government also converted its loan to equity after retaining a balance of not less than \$1 billion. The Government continued to be a majority shareholder of HKITP with ownership of about 52%<sup>4</sup>. The financial arrangements for the expansion of HKD were approved by FC at the meeting on 10 July 2009.

5. The three new themed areas<sup>5</sup> under the expansion proposal in 2009 were Toy Story Land, Grizzly Gulch and Mystic Point, which were opened in November 2011, July 2012 and May 2013 respectively. These themed areas have enlarged the area of the theme park before expansion 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.

6. On 8 October 2013, HKDML has announced the launch of Disney's first Marvel themed area, the Stark Expo, which was based on the "Iron Man" character. The new themed area is set to open in late 2016. This

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<sup>3</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 an agreement to replace the loan and revolving credit facility by a loan from a subsidiary company of WD.

<sup>4</sup> The Government's shares in HKITP lowered from 57% to 52% under the expansion plan.

<sup>5</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.

expansion project in 2013 would be funded by HKITP's operating surplus.

7. In February 2014, HKDML proposed to develop a 750-room new hotel located on the site between the existing Hong Kong Disneyland Hotel ("DLH") and Disney's Hollywood Hotel ("DHH"). In terms of market positioning, the proposed new hotel would be between DLH and DHH, with room rate ranging between \$2,000 and \$3,000 per room night. The target opening date will be in early 2017.

8. The financial arrangements for HKD to develop the new hotel were approved by FC at the meeting on 11 July 2014, with details set out below-

<b>(in HK\$bn)</b>	<b>Government</b>	<b>WD</b>	<b>HKITP</b>
Cash equity injection		1.700(A)	
Conversion of existing Government loan to equity	1.700(Note)		
New shareholder loans	0.8085(B)	1.1545(C)	
Contribution by operating cash			0.600(D)
<b>Total Cash Contribution</b>	<b>0.8085</b>	<b>2.8545</b>	<b>0.600</b>
<b>Estimated Project Cost = (A) + (B) + (C) + (D) = \$4.263 billion</b>			

(Note: The proposed conversion of the existing Government loan is intended to maintain the Government's majority shareholding in the joint venture. It is not part of the funding for the project cost.)

9. According to the Administration, the level of return would be comparable to other hotel developments of the similar tier in Hong Kong. While WD did not disclose its cost of capital, the average analyst estimate was 8%, and the expectation on the third hotel was to deliver returns at or above that threshold.

10. To further enhance its appeal to visitors, HKDML has launched a new night-time parade called "Disney Paint the Night" in October 2014, and will continue to launch a series of new initiatives, including the 10<sup>th</sup> Anniversary Celebration in 2015.

11. The Government will also commence discussion with WD on the phase 2 development of HKD, and engage a financial advisor to advise it on the matter. The funding required for engaging the advisor will be included and reflected in the 2015-2016 Draft Estimates for Commerce, Industry and Tourism Branch.

Operating and financial performance

12. 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>6</sup>. The accumulated number of visitors received by HKD and the combined occupancy rate of DLH and DHH are set out below –

<b>Year</b>	<b>Actual number of attendance at HKD (in Mn)</b>	<b>Combined occupancy rate of DLH and DHH</b>
2005-2006 (as at end of September 2006)	5.2	N/A
2006-2007 (as at end of September 2007)	4	N/A
2007-2008 (as at end of November 2008)	5.3	78%
2008-2009 (as at end of December 2009)	4.6	70%
2009-2010 (as at end of December 2010)	5.2	82%
2010-2011 (as at end of December 2011)	5.9	91%
2011-2012 (as at end of December 2012)	6.7	92%
2012-2013 (as at end of December 2013)	7.4	94%

13. To support HKITP, WD has waived its management fees and deferred payment of royalties for two years (i.e. 2007-2008 and 2008-2009). As at the end of 2007, HKDML 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.

<sup>6</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.

14. As regards financial performance in 2012-2013, HKITP generated a revenue of \$4,896 million, representing an increase of 14.7% or \$624 million more than the previous year. The earnings before interest, taxes, depreciation and amortization ("EBITDA") were \$1.113 billion, a substantial improvement from \$876 million in 2011-2012. In 2012-2013, HKITP achieved a net profit of \$242 million, representing an increase of \$133 million from previous year of \$109 million. The revenues and net profit/(loss) of HKITP since 2008 are set out below-

(in HK\$Mn)	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
<b>Revenues</b>	2,541	3,013	3,630	4,272	4,896
	--	(+18.6%)	(+20.5%)	(17.7%)	(+14.6%)
<b>Net profit / (Loss)</b>	(1,315)	(718)	(237)	109	242

#### Economic benefits

15. According to the survey statistics from the Hong Kong Tourism Board and the operational data of HKD, the additional spending of all HKD visitors in Hong Kong surged by 46% over the previous year to \$20.2 billion<sup>7</sup> in 2012-2013. HKD brought about \$11.6 billion of value added to Hong Kong in 2012-2013, equivalent to around 0.58% of Hong Kong's Gross Domestic Product ("GDP"), and created 33 200 jobs (in terms of man-year). Taking the first eight years of operation together, the total value added generated by HKD amounted to \$50.4 billion or 0.35% of Hong Kong's GDP. A total of 148 900 jobs (in terms of man-years) had been created over these years, providing considerable job opportunities especially for frontline workers and the travel industry. Key economic benefits brought by HKD since 2008-2009 are set out below:

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
<b>Contribution to GDP</b>	0.3%	0.3%	0.4%	0.42%	0.58%
<b>Additional spending of HKD visitors in Hong Kong ( in HK\$ bn)</b>	7.2	9.6	10.9	12.9	20.2
<b>Jobs created (in terms of man-years)</b>	10 000	19 000	20 800	24 500	33 200

<sup>7</sup> All value figures in paragraph 10 are at 2011 prices.

## Staffing

16. In 2012-2013, HKDML's full-time workforce was approximately 4 800. It also engaged 2 600 part-time staff to cope with the increased demand at Halloween, Christmas, Chinese New Year, summer holidays as well as other special occasions. HKDML has more than 100 employees with disabilities, representing about 2% of the full-time staff and 1.4% of the total workforce. HKDML had co-operated with a number of non-governmental organizations in creating an apprenticeship programme for persons with disabilities. The number of full-time, part-time and disabilities staff of HKD since 2008-2009 are set out below-

	<b>2008-2009</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>
Full-time staff	4 400	4 300	4 500	4 700	4 800
Part-time staff	1 200	1 400	1 700	2 200	2 600

## **Concerns expressed by Members in previous discussions**

17. The Panel on Economic Development ("the Panel") has deliberated on issues related to the expansion plans, financial and governance arrangements of HKD when the Administration reported on the operation of HKD for each year, and the last update was discussed at the Panel meeting held on 24 February 2014.

## Expansion plans

18. At the Panel meeting held on 25 February 2013, members were briefed on the progress of the expansion plan of HKD's first Marvel themed area. Members 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.

19. At the Panel meeting held on 24 February 2014, the Panel in general supported the proposal for a new hotel in HKD. Some members expressed concern about the phase 2 development of HKD and urged HKITP to speed up its expansion plan. In reply, the Administration

advised that it had had initial discussion with WD on HKD's phase 2 development. While the current focus was on the full utilization of the phase 1 site, it was likely that the development of the phase 2 site might proceed ahead of schedule given the patronage of HKD in the past couple of years and depending on market demands.

#### Financial arrangement

20. In response to a member's request at the Panel meeting held on 28 October 2013, the Administration and HKDML provided detailed financial appraisal in respect of the Stark Expo. Members noted that the construction costs of the Stark Expo would be financed from HKDML's operating surplus without additional financial support from the Government or WD, however, HKDML declined to disclose the financial details of the project on ground of commercial sensitivity.

21. Some other members asked whether HKITP would need to pay any franchise and royalties to WD. HKDML advised that the franchise and royalties payable to WD were set according to the existing rates agreed between the Government and WD.

#### Park management and marketing strategy

22. At previous Panel meetings, 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.

23. 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 ("HKIA"). The Administration explained that the SkyPier was located in the Restricted Area of the HKIA, 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 Hong Kong-Zhuhai-Macao Bridge could be used to bring in visitors from the west bank of the Pearl River to HKD.

24. Some members expressed concern about the cultural conflicts between visitors from the Mainland and local people, and queried what measures HKD would be adopted to ease the tension. Some members had suggested that HKD should incorporate more local cultural elements to suit the taste of the local public. Some other members suggested that unique and exclusive features should be provided for HKD. The Administration and HKDML 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. HKDML would enhance the competitive edge of HKD through maintaining a high standard of service and widen the source of guests by stepping up publicity and promotion efforts.

25. Regarding 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. HKDML 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, HKDML advised the Panel that local creative talents had in fact been engaged in the expansion projects in 2009 and 2013.

### **Council questions**

26. At the Council meeting on 17 December 2014, Hon CHAN Han-pan raised a question on the prices of admission tickets and concessions of HKD. Mr CHAN expressed concern about the reduction in concessions by HKD which aroused discontent among members of the public, and whether the Government has established any mechanism to monitor HKD's setting of prices for admission tickets. Hyperlink to the relevant written reply from the Administration is provided in the **Appendix**.

### **Latest development**

27. At the meeting on 16 February 2015, the Administration will update the Panel on HKD's operation for 2013-2014.

## **Relevant papers**

28. A list of relevant papers which are available on the LegCo Website (<http://www.legco.gov.hk>) is in the **Appendix**.

Council Business Division 4  
Legislative Council Secretariat  
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## List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	25 February 2013	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">Background brief</a> <a href="#">Information paper issued by the Administration</a> <a href="#">Follow-up paper issued by the Administration</a>
	28 October 2013	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">Background brief</a> <a href="#">Information paper issued by the Administration</a> <a href="#">Follow-up paper issued by the Administration</a>
	24 February 2014	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">Background brief</a> <a href="#">Information paper issued by the Administration</a> <a href="#">Follow-up paper issued by the Administration</a>
	2 February 2015	<a href="#">Agenda</a> <a href="#">Policy Initiatives of the Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau</a>
Council Meeting	17 December 2014	<a href="#">Written reply by the Secretary for Commerce and Economic Development to a question on "Prices of admission tickets and concessions of Hong Kong Disneyland" raised by the Hon CHAN Han-pan</a>