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Panel on Economic Development
Meeting on 22 February 2016

Updated background brief on Hong Kong Disneyland

Purpose

This paper provides an update on the background information of the Hong Kong Disneyland ("HKDL") and summarizes the major views and concerns of members of the Panel on Economic Development ("the Panel") on the subject.

Background

Development of HKDL

2. In December 1999, the Government entered into an agreement with The Walt Disney Company ("WD") to build HKDL (Phase 1) at Penny's Bay¹. A joint venture company, the Hongkong International Theme Parks Limited ("HKITP"), was set up for this purpose². The Hong Kong Disneyland Management Limited wholly-owned by WD is responsible for the day-to-day operation of HKDL.

3. The then estimated total project cost of developing HKDL Phase 1 was \$14.1 billion, in addition to an estimated cost of \$4 billion for

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 Phase 2.

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.

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 HKDL. The related financial and staffing proposals were approved by the Finance Committee ("FC") on 17 and 26 November 1999 respectively.

Expansion plans

4. The Government and WD reached agreement in July 2009 for an expansion plan in Phase 1 of HKDL. 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)³ to equity. Although the Government did not inject any new capital for the expansion, it has converted its loan to equity after retaining a balance of not less than \$1 billion. Upon the capital injection by WD and conversion of the Government and WD loans, the Government continues to be a majority shareholder of HKITP. The financial arrangements for the expansion of HKDL were approved by FC at the meeting on 10 July 2009.

5. The Phase 1 expansion plan comprises three new themed areas⁴, namely Toy Story Land, Grizzly Gulch and Mystic Point, which were opened in 2011, 2012 and 2013 respectively. Other new initiatives of HKDL include a new themed area based on Marvel's Iron Man franchise and a new 750-room resort-style hotel which are targeted to open in 2016 and 2017 respectively.

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 an agreement to replace the loan and revolving credit facility by a loan from a subsidiary company of WD.

⁴ 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.

6. The Phase 2 development of HKDL covers an estimated area of 60 hectares with attractions, hotel development and retail facilities. The Government has commenced discussions with WD on the development. The financial arrangements for the new hotel were approved by FC at its meeting on 11 July 2014. The projected cost of it will be \$4.263 billion, in which no greater than \$808.5 million will be a loan provided by the Government.

Operating and financial performance

7. According to the Administration's assessment made in 1999, HKDL would generate huge economic benefits for the Hong Kong economy, estimated to reach \$148 billion over 40 years⁵. The number of visitors received by HKDL since its opening on 12 September 2005 are set out below:

Year⁶	Actual number of attendance
2005-2006	5.2 million
2006-2007	4 million
2007-2008	4.5 million
2008-2009	4.6 million
2009-2010	5.2 million
2010-2011	5.9 million
2011-2012	6.7 million
2012-2013	7.4 million
2013-2014	7.5 million

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 HKDL 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.

⁶ Each year of operation of HKDL starts in October and ends in the next September.

8. The two hotels at HKDL recorded a combined occupancy rate of 93% in 2013-2014, representing a decrease of 1% as compared with 2012-2013.

9. As regards financial performance in 2013-2014, HKDL generated \$5.46 billion of revenue which was about 12% higher than the previous year. The earnings before interest, taxes, depreciation and amortization were \$1.25 billion, an improvement of \$0.14 billion from \$1.11 billion in 2012-2013. In 2013-2014, HKDL achieved a net profit of \$322 million, representing an increase of \$88 million from \$244 million in the previous year.

Economic benefits

10. According to the survey statistics from the Hong Kong Tourism Board and the operational data of HKDL, the additional spending of all HKDL visitors in Hong Kong increased by 21% over the previous year to \$26.0 billion⁷ in 2013-2014. HKDL brought about \$13.2 billion of value-added to Hong Kong in 2013-2014, equivalent to around 0.62% of Hong Kong's Gross Domestic Product.

Staffing

11. In 2013-2014, HKDL's full-time workforce was more than 5 100. It also engaged 2 700 part-time staff to cope with the increased demand at Halloween, Christmas, Chinese New Year, summer holidays as well as other special occasions.

Views and concerns expressed by members

12. HKDL briefed members on its annual business review for 2013-2014 at the Panel meeting on 16 February 2015. Members deliberated on matters related to the expansion of HKDL, competition from Shanghai Disneyland ("SHDL") and corporate social responsibility. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

⁷ All value figures in paragraph 10 are at 2012 prices.

Expansion of HKDL

13. Some members were concerned about the timetable for and the cost-effectiveness of the Government's future investment in the Phase 2 development project of HKDL. They urged the Administration and HKDL to expedite the development with tailor-made attractions. The Administration advised that discussions on Phase 2 development of HKDL between the Government and WD had already commenced. The discussions covered design concept, financial arrangements and transportation support facilities. The Administration would report to the Legislative Council when there was conclusion in the discussions.

14. In response to members' enquiry on whether HKDL had any plans to collaborate with other tourist spots on Lantau Island, in other parts of Hong Kong and in the Pearl River Delta ("PRD") region, HKDL advised that enhancement of transport network on Lantau Island was most critical in its development. In this connection, the Administration informed members that the Transport Department as well as other relevant departments were studying possible improvements to passenger and vehicle flows on Lantau Island.

Competition from the Shanghai Disneyland

15. Some members enquired if the Government had assessed the impact of SHDL on HKDL once it was open, and how HKDL could differentiate itself from similar parks in the region by enhancing its uniqueness. HKDL advised that it was a natural tendency for tourists to visit theme parks in their nearest proximity. HKDL served the local market as well as tourists from the Southeast Asia and in the PRD region whilst SHDL would serve mainly visitors from Yangtze River Delta region. There would be no major duplication of markets between the two theme parks. Nevertheless, HKDL would strive to maintain high quality programmes and guest experience to enhance attractiveness.

16. Some members urged HKDL to collaborate with SHDL in tapping the overseas markets and take precautionary measures against potential problems, such as the possible drop of Mainland visitors.

Corporate social responsibility

17. Some members suggested that HKDL should offer field visits to share its experience in various aspects of business management with local students to widen their horizons and inspire their career aspiration, and that

HKDL should engage more proactively in community activities and establish a liaison platform with local schools.

18. In response to a member's enquiry about the recruitment of persons with disabilities by HKDL, HKDL advised that it had employed more than 100 individuals with disabilities in 2013-2014, including those who were hired under the apprenticeship programme. HKDL would continue to expand its work in supporting persons with disabilities in future.

Council question

19. At the Council meeting on 17 December 2014, Hon CHAN Han-pan raised a question on HKDL's setting of prices for admission tickets and concessions. Hyperlink to the relevant written reply from the Administration is provided in the **Appendix**.

Latest development

20. At the meeting on 22 February 2016, the Administration will update the Panel on HKDL's operation for 2014-2015.

Relevant papers

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

Appendix

List of relevant papers

Issued by	Meeting Date/ Issue Date	Paper
Panel on Economic Development	16 February 2015	Agenda Minutes Background brief Information paper issued by the Administration Paper on update on Hong Kong Disneyland provided by the Hong Kong Disneyland Management Limited (power-point presentation material)
	26 January 2016	Agenda Information paper issued by the Administration
Finance Committee	11 July 2014	Agenda Minutes Information paper issued by the Administration
	30 March 2015	Agenda Administration's replies to Members initial written questions
Council Meeting	17 December 2014	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