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Panel on Economic Development
Meeting on 27 February 2017

Updated background brief on the Hong Kong Disneyland

Purpose

This paper provides background information on the development of the Hong Kong Disneyland ("HKDL") and summarizes the major views and concerns expressed by members of the Panel on Economic Development ("the Panel") in the past on the subject.

Background

2. HKDL is owned by the Hongkong International Theme Parks Limited ("HKITP")¹, a joint venture between the Government and The Walt Disney Company ("TWDC"), and is managed by the Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. At the end of fiscal year 2015, the Government owned a 53% majority interest in HKITP, with TWDC owning the remaining 47%.

3. HKDL has two themed hotels: the 400-room Hong Kong Disneyland Hotel ("DLH") and the 600-room Disney's Hollywood Hotel ("DHH").

¹ HKITP operates under the supervision of a Board of Directors, which comprises five Government directors, four Disney directors and two independent non-executive directors.

Operating and financial performance

4. The accumulated number of visitors received by HKDL and the combined occupancy rate of DLH and DHH are set out below –

Year*	Actual number of attendance (in million)	Combined occupancy rate of DLH and DHH
2005-2006	5.2	N/A
2006-2007	4	N/A
2007-2008	4.5	78%
2008-2009	4.6	70%
2009-2010	5.2	82%
2010-2011	5.9	91%
2011-2012	6.7	92%
2012-2013	7.4	94%
2013-2014	7.5	93%
2014-2015	6.8	79%

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

5. As regards financial performance in 2014-2015, HKDL generated \$5,114 million of revenue which was about 6% lower than the previous year. The earnings before interest, taxes, depreciation and amortization were \$805 million, representing a year-on-year decrease of 36%. In 2014-2015, HKDL recorded a net loss of \$148 million, representing a decrease of \$480 million from \$332 million in the previous year. The revenues and net profit/(loss) of HKITP since 2008 are set out below –

Year*	Revenues (in \$million)	Net profit / (Loss) (in \$million)
2008-2009	2,541 (--)	(1,315)
2009-2010	3,013 (+18.6%)	(718)
2010-2011	3,630 (+20.5%)	(237)
2011-2012	4,272 (+17.7%)	109
2012-2013	4,896 (+14.6%)	242
2013-2014	5,466 (+11.6%)	332
2014-2015	5,114 (-6.4%)	(148)

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

Economic benefits and staffing establishment

6. 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 was \$18.8 billion in 2014-2015. HKDL

brought about \$9.3 billion of value-added to Hong Kong in 2014-2015, equivalent to around 0.42% of Hong Kong's Gross Domestic Product.

7. In 2014-2015, HKDL's full-time workforce was more than 5 300. It also engaged 2 500 part-time staff to cope with the increased demand during festive seasons as well as other special occasions.

Panel members' views and concerns

8. The Panel was briefed on HKDL's annual business review for 2014-2015 at the meeting on 22 February 2016. The Panel noted with concern that in 2014-2015, HKDL received 6.8 million visitors, which was 9% lower than previous year. Local, Mainland and international visitors respectively accounted for 39%, 41% and 20% of total attendance. In 2014-2015, HKDL's total revenue was \$5,114 million, representing a year-on-year decrease of 6%. HKDL recorded a net loss of \$148 million after deducting interest, taxes, depreciation and amortization.

9. In the face of challenge posed by the opening of the Shanghai Disney Resort, some members were of the view that HKDL should expedite its Phase 2 development² to maintain its appeal and competitiveness, and formulate measures to increase its attractiveness. In taking forward the expansion project, the Administration should be mindful of the need to safeguard the best interests of Hong Kong. There was also an opinion that it would be unnecessary for the Government to provide highly favourable terms to support the expansion project as in the case of Phase 1 development of HKDL. Some members also called on HKDL to ensure job security of its existing staff.

10. The Administration advised that negotiations had been going on for the second phase development of HKDL, and there was no pre-determined date to complete the negotiation at this stage. The Government would, as always, put public interest at the first place during the negotiation with TWDC.

² Under the agreement signed between the Government and TWDC in 1999, HKITP is given an Option to buy the site immediately to the east of the Phase 1 site for a second phase of the development. The Option is valid for 20 years from signature, with an automatic right to extend for a further five years and a conditional right to extend for a second five year period.

Recent expansion and development plan of HKDL

11. The Government announced on 22 November 2016 that it had reached an in-principle agreement with TWDC in respect of an expansion and development plan at the Phase 1 site of HKDL ("the Plan"). The Plan will cost \$10.9 billion, to be shared between the two shareholders according to the current shareholding ratio, i.e. \$5.8 billion and \$5.1 billion to be injected by the Government and TWDC respectively.

12. When consulted on the Plan at the Panel meeting on 28 November 2016, members in general acknowledged the need to further enhance HKDL's appeal and competitiveness amid keen regional competition on tourism infrastructure. The Panel, however, expressed grave concerns over a range of issues concerning the financial arrangements of the Plan, including the need and cost-effectiveness for the Government to further inject fund into HKDL, other options for financing the Plan, the need for the Government to be the majority shareholder of HKITP, etc. Some members urged the Administration to take the opportunity to negotiate with TWDC for more favourable terms in the calculation of payment for management fees and royalties, as well as the relaxation of height restrictions of development in the vicinity of HKDL so as to enhance the flexibility of the future developments on Lantau Island.

13. The Panel passed three motions concerning the Plan at its meetings on 28 November 2016 and 13 December 2016. Wording of the motions is in **Appendix I**.

Latest development

14. The Administration will update the Panel on HKDL's operation for 2015-2016 at the meeting on 27 February 2017.

Council questions

15. At the Council meetings on 17 December 2014, 8 June and 14 December 2016, Hon CHAN Han-pan, Hon YIU Si-wing and Hon WU Chi-wai raised questions relating to HKDL's setting of prices for admission tickets and concessions, staff layoff by HKDL and the financial arrangements for the proposed expansion and development plan of HKDL. Hyperlink to the relevant written reply from the Administration is provided in the **Appendix II**.

Relevant papers

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

Council Business Division 4
Legislative Council Secretariat
22 February 2017

**Wording of the motions passed at the Panel meetings
on 28 November 2016 and 13 December 2016 under the agenda item of
"Expansion and development plan of Hong Kong Disneyland Resort"**

經濟發展事務委員會

**在 2016 年 11 月 28 日的會議上就
議程項目 IV "香港迪士尼樂園度假區擴建及發展計劃"
通過的議案**

本委員會要求政府在推動香港迪士尼樂園度假區擴建的同時，設立"本地特色旅遊發展基金"，加強推動本港文化、歷史及綠色旅遊，以增強本港旅遊體驗，鼓勵更多旅客訪港。從而增加就業、培訓機會，促進經濟發展。

動議人：陸頌雄議員
和議人：姚思榮議員, BBS

(Translation)

Panel on Economic Development

**Motion passed under agenda item IV on
"Expansion and development plan of
Hong Kong Disneyland Resort"
at the meeting on 28 November 2016**

That this Panel urges the Government, while promoting the expansion of Hong Kong Disneyland Resort, to set up a fund for the development of tourism with local features, which can step up the promotion of the culture, history and nature tours of Hong Kong, enrich the tourism experience for our visitors and encourage more visitors to visit Hong Kong, so as to boost employment, provide more training opportunities and contribute to the economic development.

Motion moved by : Hon LUK Chung-hung
Motion seconded by : Hon YIU Si-wing, BBS

經濟發展事務委員會

**在 2016 年 11 月 28 日的會議上就
議程項目 IV "香港迪士尼樂園度假區擴建及發展計劃"
通過的議案**

鑑於政府及迪士尼公司因保密協議未能提供更多關於合約的細節，以及未與美國迪士尼公司商議如何改善合約中不平等的條款，包括但不限於管理費與顧問費的計算方法，本會促請政府押後迪士尼樂園擴建計劃。

動議人：田北辰議員, BBS, JP

(Translation)

Panel on Economic Development

**Motion passed under agenda item IV on
"Expansion and development plan of Hong Kong Disneyland Resort"
at the meeting on 28 November 2016**

That this Panel requests the Government to defer the Hong Kong Disneyland expansion plan, given that the Government and The Walt Disney Company ("TWDC") cannot provide further details of the agreement due to its confidential character, and that the Government has not negotiated with TWDC to improve the unfair terms and conditions in the agreement, including but not limited to the calculation of management fees and consultants' fees.

Motion moved by: Hon Michael TIEN Puk-sun, BBS, JP

經濟發展事務委員會

在 2016 年 11 月 28 日的會議上 就議程項目 IV "香港迪士尼樂園度假區擴建及發展計劃" 提出 並在 2016 年 12 月 13 日會議上通過的議案

本會要求政府及香港迪士尼樂園管理有限公司就新擴建計劃提出撥款申請前，必須公開更多資料及數據，以回應社會對有關計劃的疑問；同時，政府必須檢討並爭取修訂現時迪士尼公司享有過於優厚的經營條款，包括但不限於樂園專利收入等，以及放寬香港迪士尼樂園周邊地區(包括大嶼山)的發展限制，以保障公帑的投資及香港整體發展。

動議人：周浩鼎議員

和議人：梁志祥議員, BBS, MH, JP

(Translation)

Panel on Economic Development

Motion proposed under agenda item IV on "Expansion and development plan of Hong Kong Disneyland Resort" at the meeting on 28 November 2016 and passed at the meeting on 13 December 2016

That this Panel requests that the Government and The Hong Kong Disneyland Management Limited ("HKDML") publish more information and data before submitting a funding application for the new expansion project, so as to address the queries raised in the community about the project; at the same time, the Government has to review and seeks to amend the current operating terms which are too favourable to The Walt Disney Company, including but not limited to the income earned by the Hong Kong Disneyland Resort ("HKDL") from royalties and others, as well as to relax development restrictions in the vicinity of HKDL (including Lantau Island), so as to safeguard the investment of public funds and the overall development of Hong Kong.

Motion moved by : Hon Holden CHOW Ho-ding

Motion seconded by : Hon LEUNG Che-cheung, BBS, MH, JP

Appendix II

List of relevant papers

Issued by	Meeting Date/ Issue Date	Paper
Panel on Economic Development	22 February 2016 (Item V)	Administration's paper Background brief Minutes
	28 November 2016 (Item IV)	Administration's paper Background brief Motion moved by Hon LUK Chung-hung Motion moved by Hon Michael TIEN
	13 December 2016 (Item I)	Motion moved by Hon Holden CHOW
Council Meeting	17 December 2014	Council question on "Prices of admission tickets and concessions of Hong Kong Disneyland" raised by Hon CHAN Han-pan
	8 June 2016	Council question on "Staff layoff by Hong Kong Disneyland" raised by Hon YIU Si-wing
	14 December 2016	Council question on "The expansion and development plan for the Hong Kong Disneyland Resort" raised by Hon WU Chi-wai