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Legislative Council
Panel on Economic Development

Update on Hong Kong Disneyland Resort

The Government's response to the motions passed
at the meeting on 26 February 2018

PURPOSE

This note sets out the Government's response to the two motions passed at the Panel on Economic Development meeting on 26 February 2018 regarding the Hong Kong Disneyland Resort ("HKDL") (at **Annex**).

RESPONSE TO THE MOTIONS PASSED

The site planned for the possible Phase 2 development of HKDL

2. Currently, there is a site to the east of HKDL planned for the possible Phase 2 development of HKDL ("the Phase 2 Site"). Pursuing the Phase 2 development of HKDL is one of the proposals for the resort's overall development in future. The Government and The Walt Disney Company ("TWDC") will continue to explore the possible Phase 2 development of HKDL, as the long-term development plan of HKDL.

3. According to the Option Deed, the Hongkong International Theme Parks Limited ("HKITP") has an option to buy the Phase 2 Site for taking forward the Phase 2 development plan. Before HKITP exercises such option, the Phase 2 Site can currently be used for various short-term uses in accordance with the permitted land uses under the Deed of Restrictive Covenant, such as recreational facilities and sports facilities, etc.. When considering these short-term uses, we need to take into account whether such uses are compatible with the use and atmosphere of HKDL. In fact, the Phase 2 Site was used for hosting some short-term activities in the past, such as sports activities and group events. We will continue to explore how to better utilise the Phase 2 Site for short-term uses, with a view to further exploiting the recreation, tourism and entertainment positioning in the vicinity of HKDL.

Nurturing Hong Kong's talents in creative industries

4. Throughout its operation in Hong Kong in the past years, HKDL constantly needs creative talents in different aspects to tie in with its

developments in areas including daily operation, innovation and technology, creative design, performing arts, etc.. In connection with the work in these areas, HKDL has not only introduced professional talents from all over the world, but also employed local people, which would be conductive to nurturing local talents in the creative industries and promoting the developments of the related industries.

5. Furthermore, HKDL has all along been inspiring creativity of local youngsters and nurturing local creative and design talents through different activities. For instance, HKDL has, since 2011, been cooperating with Walt Disney Imagineering[1] to organise the annual "Disney ImagiNations Hong Kong Design Competition", which allows the participating tertiary students to apply design and creative concepts to their projects. There have so far been about 1 500 students who joined the said competition. Every year, the winning team is sponsored to visit the headquarters of Walt Disney Imagineering in the United States for exchange and internship experience. Moreover, HKDL partnered with Create Hong Kong in 2015 and 2016 to arrange local creative talents in the animation field (including directors and producers) to visit Walt Disney Animation Studios in the United States for understanding the production concepts, creative processes and techniques, brand strategies, etc.. HKDL and Disney's imagineering team will continue to work with different local partners in the creative field to promote the development of the creative industries in Hong Kong.

Royalties and management fees

6. Generally speaking, Disney resorts outside the United States make payment of royalties and management fees to TWDC. According to the agreements between the Government and TWDC, the royalties payable by HKDL to TWDC are at 5% to 10% of revenues, depending on the source of revenues (e.g. merchandise, food and beverage, admission, etc.), for enabling HKDL to access and use Disney's intellectual properties for the resort's development and operation. This arrangement is largely the same as the royalties charged by TWDC for other Disney resorts outside the United States. TWDC also advises that its royalty rate is in-line with that of similar fees in the media and the entertainment sector.

7. As regards the management fees, according to the agreements between the Government and TWDC, the management fee mechanism of HKDL has, since 2009, improved from using revenues as the basis to being fully linked to the

[1] Walt Disney Imagineering is the innovation and research department of TWDC, and is responsible for the design and construction of Disney-themed resorts around the world.

resort's performance (i.e. earnings before interest, tax, depreciation and amortisation ("EBITDA")), which can better incentivise the management company of HKDL (i.e. the Hong Kong Disneyland Management Limited) to drive business performance and operational efficiency. Under the arrangements implemented since 2009, the formula for calculating the base management fee is adjusted to 6.5% of EBITDA, instead of the original formula of 2% of gross revenues, and the formula for calculating the variable management fee is adjusted to 0% to 8% of EBITDA, instead of the original formula of 2% to 8% of EBITDA. Indeed, since the implementation of the improved management fee arrangements in 2009, HKITP has recorded positive EBITDA for eight consecutive years during fiscal years 2010 to 2017. This shows that the current arrangements can provide incentives for the management company to enhance HKITP's financial performance.

8. The Government, as the shareholder of HKDL, attaches great importance to the financial performance of HKDL, and will continue to closely monitor the management company's performance in operating HKDL and request the management company to strive for better performance and to review various expenses (including the management fees payable by HKDL) and implement improvement measures as necessary.

Tourism Commission
Commerce and Economic Development Bureau
May 2018

Annex

Motions passed at Panel on Economic Development meeting on 26 February 2018 regarding "Update on Hong Kong Disneyland Resort"

Motion moved by : Hon Holden CHOW Ho-ding
Motion seconded by : Hon WONG Ting-kwong, GBS, JP

This Panel urges the Government to discuss with The Walt Disney Company ("TWDC") on exploration of advancing the use of the vacant site planned for the Phase 2 development of the Hong Kong Disneyland Resort ("HKDL") for purposes such as short-term leasing or provision of ancillary leisure and recreational facilities, so as to avoid the site being left idle and enhance tourism benefits; and this Panel also urges that the Government should explore leveraging on Hong Kong's edge in the development of creative industries by encouraging TWDC to invest resources to proactively nurture the professional talents of animation and creative industries in Hong Kong, so as to create shared values for TWDC and Hong Kong.

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

This Panel urges the Administration to exert its utmost to discuss with The Walt Disney Company ("TWDC") that in the years when the Hong Kong Disneyland Resort ("HKDL") has suffered losses, the management fees and royalties to be received by TWDC from HKDL should be offset by the amount of losses so as to ensure that HKDL has achieved breakeven in its financial accounts before TWDC can receive management fees and royalties.