

**立法會**  
**Legislative Council**

LC Paper No. CB(4)599/17-18(06)

Ref : CB4/PL/EDEV

**Panel on Economic Development**  
**Meeting on 26 February 2018**

**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")<sup>1</sup>, a joint venture between the Government and The Walt Disney Company ("TWDC"), and is managed by the Hong Kong Disneyland Management Limited ("HKDML"), which is wholly owned by TWDC. At the end of fiscal year 2016, the Government owned a 53% majority interest in HKITP, with TWDC owning the remaining 47%.

3. HKDL has three themed hotels: the 400-room Hong Kong Disneyland Hotel ("DLH"), the 600-room Disney's Hollywood Hotel ("DHH") and the 750-room Disney Explorers Lodge<sup>2</sup>.

---

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

<sup>2</sup> Disney Explorers Lodge commenced operation on 30 April 2017.

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 –

<b>Year*</b>	<b>Actual number of attendance (in million)</b>	<b>Combined occupancy rate of DLH and DHH</b>
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%
2015-2016	6.1	79%

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

5. As regards financial performance in 2015-2016, HKDL generated \$4,750 million of revenues which was 7% lower than the previous year. Earnings before interest, taxes, depreciation and amortization ("EBITDA") were \$715 million, representing a year-on-year decrease of 11%. In 2015-2016, HKDL recorded a net loss of \$171 million. The revenues and net profit/(loss) of HKITP since 2008 are set out below –

<b>Year*</b>	<b>Revenues (in \$million)</b>	<b>Net profit / (Loss) (in \$million)</b>
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)
2015-2016	4,750 (-7%)	(171)

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

### 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 \$17.0 billion in 2015-2016. HKDL brought about \$8.7 billion of value-added to Hong Kong in 2015-2016, equivalent to around 0.37% of Hong Kong's Gross Domestic Product.

7. In 2015-2016, HKDL employed more than 5 000 full-time and 2 300 part-time staff members to cope with the additional demand arising from various festive seasons and other special events.

### Recent expansion and development plan of HKDL

8. 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 aimed to sustain and refresh HKDL's appeal through the launch of at least one new attraction almost every year from 2018 to 2023. The types of new attractions included new immersive themed areas, new/updated facilities and expansion of existing facilities. The Plan was estimated to cost \$10.9 billion, originally proposed to be shared between the two shareholders according to the shareholding ratio, i.e. \$5.8 billion and \$5.1 billion to be injected by the Government and TWDC respectively.

9. The Panel was consulted on the Plan at the meeting on 28 November 2016. Members in general acknowledged the need to further enhance HKDL's appeal and competitiveness. The Panel, however, expressed grave concerns over a range of issues concerning the financial arrangements of the Plan. Members also urged the Administration to take the opportunity to rectify the unfair terms it had entered with TWDC, in particular those concerning the payment of royalties and management fees. The Panel passed three motions urging the Administration to set up a fund for the development of tourism with local features while promoting the Plan, defer the Plan until the Government had negotiated with TWDC to improve the current unfair terms and conditions in the agreement, request HKDML to publish more information and data before submitting a funding application for the Plan, and request TWDC to relax height restrictions of developments in the vicinity of HKDL. The Administration's response to the motions was issued to members on 24 February 2017 vide LC Paper No. CB(4)622/16-17(01).

10. In the light of the concerns raised by the Panel, the Government and TWDC subsequently agreed that the project cost would be funded on a 50:50 basis, i.e. \$5.45 billion each. TWDC, having regard to the views of the Panel, agreed to waive HKDL's variable management fees payable by HKITP for 2017-2018 and 2018-2019, as part of the arrangement details for taking forward the Plan. TWDC also agreed to explore relaxing the development restrictions in the vicinity of HKDL. The funding proposal was approved by the Finance Committee on 2 May 2017.

### **Panel members' deliberations**

11. The Panel was briefed on HKDL's annual business review for 2015-2016 at the meeting on 27 February 2017. Members noted with concern that in 2015-2016, HKDL received 6.1 million visitors, which was 11% lower than the previous year. Local, Mainland and international visitors respectively accounted for 39%, 36% and 25% of total attendance. In 2015-2016, HKDL's total revenues were \$4,750 million, representing a year-on-year decrease of 7%. HKDL recorded a net loss of \$171 million after deducting interest, taxes, depreciation and amortization.

12. Members were generally dissatisfied with the business performance of HKDL in 2015-2016, in particular the declining attendance and the loss recorded. In this connection, they urged the Administration to formulate effective measures to improve HKDL's performance so as to ensure effective use of public funds.

13. During the discussion, the Panel expressed grave concern about the mechanism to derive the royalties and management fees received annually by TWDC which was, in some members' view, rather unfair to the Government, especially when HKDL experienced a financial loss. To ameliorate the unfair agreement terms, the Panel passed a motion urging the Government to discuss with TWDC for a review of such mechanism, including the waiving of partial royalties and management fees by TWDC as appropriate, and consider changing the calculation basis for the royalties and management fees received by TWDC from the current formula which was linked to EBITDA to a formula linked to earnings after interest, tax, depreciation and amortization.

14. The Administration advised that payment of royalties and management fees to TWDC was common to Disney resorts outside the United States in general. For royalties, TWDC charged all Disney resorts outside the United States for the access to and use of Disney's intellectual

properties for the resorts' development and operation. Based on publicly released information, the royalty rate charged by TWDC on Disney resorts outside the United States was largely the same at about 5% to 10% of revenues, depending on the source of revenues (e.g. merchandise, food and beverage, admission, etc.). Having regard to the industry practice, TWDC had advised that its royalty rate was in-line with the comparables in the media and entertainment sector.

15. As regards management fees paid by Disney resorts outside the United States, the Administration advised that the exact calculation mechanism varied across different resorts. For Disneyland Paris, the base management fees were charged at 1% to 6% of revenues, while the variable management fees were calculated based on 30% of pre-tax adjusted cash flow, in excess of 10% of gross fixed assets. As for Shanghai Disney Resort, its management fee mechanism was designed with reference to HKDL's arrangements before the improvement agreed in 2009 as elaborated in paragraph 16 below.

16. Since 2009, HKDL's management fees were fully linked to the resort's performance (i.e. EBITDA), which was an improvement over the arrangement based on revenues as agreed in 1999 and could better incentivize HKDML to drive the business performance and operational efficiency of HKDL. According to the arrangements between the Government and TWDC in 2009, the formula for calculating the base management fee was 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 was adjusted from 2% to 8% of EBITDA to 0% to 8% of EBITDA. Under normal operations of Disney resorts, compared with the situations of Paris and Shanghai resorts as well as Hong Kong's arrangements before the improvement in 2009 where the management fees were tied to revenues, linking management fees to EBITDA could better align the fees with the resort's financial interest.

17. The Administration advised that each Disney resort outside the United States had its own unique development history and specific circumstances, and due regard should be given to these specific factors in making comparison among them. There was no indication that the partnership arrangements for HKDL were inferior to the Disney resorts at other sites. Having regard to members' views, the Administration had put forward different ideas in adjusting HKDL's existing management fee arrangements to TWDC, but TWDC had reservations given that TWDC's business in other Disney resorts outside the United States may be impacted, and that improvements to HKDL's management fee structure were already

made in 2009. Nonetheless, in order to show its commitment to Hong Kong and HKDL, TWDC had agreed to waive the variable management fees payable by HKITP for 2017-2018 and 2018-2019 as part of the arrangement details for taking forward the Plan. This would be conducive to HKITP's financial performance during the initial stage of the implementation of the Plan.

### **Latest development**

18. The Administration will update the Panel on HKDL's operation for 2016-2017 at the meeting on 26 February 2018.

### **Council questions**

19. At the Council meetings on 8 June and 14 December 2016, Hon YIU Si-wing and Hon WU Chi-wai raised questions relating to staff layoff by HKDL and the financial arrangements for the Plan. Hyperlinks to the Council questions and the Administration's responses are provided in the **Appendix**.

### **Relevant papers**

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

Council Business Division 4  
Legislative Council Secretariat  
20 February 2018

## Appendix

### List of relevant papers

Issued by	Meeting Date/ Issue Date	Paper
Panel on Economic Development	28 November 2016 (Item IV)	<a href="#">Administration's paper</a> <a href="#">Background brief</a> <a href="#">Motion moved by Hon LUK Chung-hung</a> <a href="#">Motion moved by Hon Michael TIEN</a>
	13 December 2016 (Item I)	<a href="#">Motion moved by Hon Holden CHOW</a>
	24 February 2017	<a href="#">Administration's response to the motions passed on 28 November and 13 December 2016</a>
	27 February 2017 (Item V)	<a href="#">Administration's paper</a> <a href="#">Background brief</a> <a href="#">Motion moved by Hon Michael TIEN and amended by Hon Holden CHOW</a> <a href="#">Administration's response to the motion passed</a>
Council Meeting	8 June 2016	<a href="#">Council question on "Staff layoff by Hong Kong Disneyland" raised by Hon YIU Si-wing</a>
	14 December 2016	<a href="#">Council question on "The expansion and development plan for the Hong Kong Disneyland Resort" raised by Hon WU Chi-wai</a>
Finance Committee	2 May 2017	<a href="#">Administration's paper</a>