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Panel on Economic Development
Meeting on 22 June 2020

Updated background brief on 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") on the subject in the past.

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 ("HKDML"), which is wholly owned by TWDC. The Government owned a 53% majority interest in HKITP, with TWDC owning the remaining 47%.

3. HKDL has three themed hotels: the 750-room Disney Explorers Lodge,² the 600-room Disney's Hollywood Hotel and the 400-room Hong Kong Disneyland Hotel.

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.

² 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 the hotels in HKDL are set out below –

Year*	Actual number of attendance (in million)	Combined hotel occupancy rate
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%
2016-2017	6.2	69%
2017-2018	6.7	75%

5. As regards financial performance in 2017-2018, HKDL generated \$6,021 million of revenues which was 18% higher than the previous year. Earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$1,355 million, representing a year-on-year increase of 48%. In 2017-2018, HKDL recorded a net loss of \$54 million. The revenues and net profit/(loss) of HKITP since 2008-2009 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)
2015-2016	4,750 (-7%)	(171)
2016-2017	5,118 (+8%)	(345)
2017-2018	6,021 (+18%)	(54)

* 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 \$16.1 billion in 2017-2018. HKDL brought about \$8.9 billion of value-added to Hong Kong in 2017-2018, equivalent to around 0.34% of Hong Kong's Gross Domestic Product.

7. In 2017-2018, HKDL employed more than 5 200 full-time staff members, as well as 2 300 part-time ones to cope with the additional demand arising from various festive seasons and other special events.

Expansion and development plan at the Phase 1 site 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 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 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.

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 ("FC") on 2 May 2017. In October 2017, HKDL officially commenced construction on the Plan.

Deliberations at the Panel meeting

11. The Panel was last briefed on the operation of HKDL in 2017-2018 at the meeting on 25 February 2019. Members noted that there was an 8% year-on-year rise in total park attendance to 6.7 million in 2017-2018. HKDL's total revenues increased by 18% from the previous year to \$6,021 million. However, a net loss of \$54 million was recorded for the year despite an EBITDA of \$1,355 million.

12. In view of HKDL's net loss of \$54 million despite the increased revenues and waiver of variable management fee in 2017-2018, members considered it unfair that TWDC could still receive management fees and royalties from HKITP. Pointing out that the construction of the Plan in October 2017 would bring about tremendous increases in the depreciation costs of HKDL in future and that the commissioning of the Hong Kong-Zhuhai-Macao Bridge did not seem to bring about significant increase in the number of visitors to HKDL, some members reiterated their view that the Administration should discuss with TWDC on waiving or giving concessions to the management fees and royalties charged against HKDL when HKDL recorded a loss. A member pointed out that the net loss of HKDL in 2017-2018 should have been even more if HKDL's variable management fees had not been waived. He considered that an offsetting mechanism should be devised to ensure that TWDC could only receive management fees and royalties from HKDL when HKDL achieved breakeven in its financial accounts.

13. The Panel had all along been concerned about the utilization of the vacant site reserved for the Phase 2 development of HKDL ("the Phase 2 site"). Members noted that according to the Option Deed signed in 2000 between the Government and HKITP, the latter had an Option to buy the Phase 2 site for taking forward the Phase 2 development of HKDL. Such Option was valid for 20 years until 2020 and might be extended twice, each for five years. Given that the Phase 2 site was currently left vacant, some members urged the Administration to explore alternative uses of the site to benefit the public. Possible suggestions included using the land for development of transitional housing, retail outlets to serve the increasing number of visitors or caravan camp site.

14. Noting that according to the Option Deed, of the two five-year extensions, the first was not subject to target park attendance while the second was conditional upon the target park attendance of 8 million being reached,

some members expressed concern about the cost effectiveness of the Government's future investments in HKDL even if the pre-set park attendance threshold could be met. Some members, however, were of the view that in order to attract more visitors, HKITP should consider kicking start the Phase 2 development of HKDL to enhance HKDL's attractions and offerings.

15. The Administration advised that HKITP would need to take into account the results of the Plan before deciding on the future developments of HKDL. Before HKITP exercised the Option for the Phase 2 site, the site could be put to short-term uses that complied with the permitted uses as listed in the Deed of Restrictive Covenant, including recreational, sports and cultural facilities, etc, but not residential use. The Government had no intention to change the existing land use arranging for the Phase 2 site. As shareholders of the joint venture, the Government and TWDC would explore from time to time the direction of HKDL's long term development, including the arrangements under the Option Deed.

16. In replying to members' questions at the special meeting of FC to examine the Estimates of Expenditure 2020-2021 in April 2020 concerning the utilization of the Phase 2 site, the Administration advised that there was an application for short-term tenancy submitted by an organization to the Government in 2018 for using part of the Phase 2 site as courts for ball game practice. It had not received any application from other organizations for holding events at the Phase 2 site in 2019-2020 and 2020-2021 so far. Furthermore, in view of the Coronavirus Disease 2019 outbreak and the related measures to combat the disease, TWDC had agreed to explore the possibility of building temporary quarantine facilities at the Phase 2 site.

Council questions

17. At the Council meetings of 28 March, 13 June, 4 July 2018, 20 November 2019 and 18 March 2020, Hon WU Chi-wai, Hon Tony TSE, Hon Andrew WAN and Hon Holden CHOW raised questions relating to the depreciation and amortization of HKDL, the use of the Phase 2 site, and the impact of social events on HKDL. Hyperlinks to the Council questions and the Administration's responses are provided in the **Appendix**.

Latest development

18. The Administration will update the Panel on the operations of HKDL for 2018-2019 at the meeting on 22 June 2020.

Relevant papers

19. A list of relevant papers available on the Legislative Council 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 2019 (Item IV)	Administration's paper Background brief Minutes
Finance Committee	7 April 2020	Administration's replies to Members initial written questions
Council Meeting	28 March 2018	Council question on "Depreciation and amortization costs for the Hong Kong Disneyland Resort" raised by Hon WU Chi-wai
	13 June 2018	Council question on "Site reserved for the second phase development of the Hong Kong Disneyland" raised by Hon Tony TSE
	4 July 2018	Council question on "Use of a site reserved for Phase 2 development for the Hong Kong Disneyland" raised by Hon Andrew WAN
	20 November 2019	Council question on "Impacts of social disturbances on the economy and people's livelihood" raised by Hon Holden CHOW
	18 March 2020	Council question on "Issues relating to the novel coronavirus epidemic" raised by Hon WU Chi-wai