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Panel on Economic Development
Meeting on 28 March 2022

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, which is wholly owned by TWDC. At the end of fiscal 2020, the Government owned a 52% majority interest in HKITP, with TWDC owning the remaining 48%.

3. HKDL has three themed hotels: the 750-room Disney Explorers Lodge², the 600-room Disney’s Hollywood Hotel and the 400-room Hong Kong Disneyland Hotel.

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 –

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.

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%
2018-2019	6.5	74%
2019-2020	1.7	15%

5. As regards financial performance in 2019-2020, HKDL's total revenue was \$1,443 million. Earnings before interest, taxes, depreciation and amortization ("EBITDA") were negative \$1,465 million, which was 76% below prior year. In 2019-2020, HKDL recorded a net loss of \$2,662 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)
2018-2019	6,047 (+0.6%)	(105)
2019-2020	1,443 (-76%)	(2,662)

* 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 in Hong Kong by HKDL visitors was \$1.8 billion during the five months when the park was in operation in 2019-2020. HKDL brought about \$1 billion of value-added to Hong Kong in 2019-2020, equivalent to around 0.04% of Hong Kong's Gross Domestic Product.

7. In 2019-2020, HKDL employed more than 5 300 full-time staff members, as well as 1 800 part-time ones.

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, which was estimated to cost \$10.9 billion, aimed to sustain and refresh HKDL's appeal through the launch of at least one new attraction almost every year from 2018 to 2023.

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 concern over a range of issues concerning the financial arrangements of the Plan. Members 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.

10. In light of the concerns raised by members, the Government and TWDC subsequently agreed that the project cost of the Plan would be funded on a 50:50 basis³, i.e. \$5.45 billion each. TWDC, having regard to the views of members, 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. The funding proposal was approved by the Finance Committee on 2 May 2017. In October 2017, HKDL officially commenced construction on the Plan.

Phase 2 site of HKDL

11. The Panel had been concerned about the utilization of the vacant site reserved for the Phase 2 development of HKDL. According to the Option Deed

³ The cost of the Plan was 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.

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. Members urged the Administration to release the Phase 2 site for other uses if HKDL was not going to take down the Phase 2 site for further development.

12. On 23 September 2020, the Government announced that it would not extend the option for HKITP to purchase the Phase 2 site, having taken into account the current economic conditions and worldwide tourism downturn. The option thus expired after 24 September 2020. The Administration also advised that although the Phase 2 site was no longer reserved for expansion of HKDL, its future development still had to comply with the land use and development requirements under the relevant outline zoning plan and the Deed of Restrictive Covenant. According to the North-East Lantau Outline Zoning Plan, the land concerned is planned for theme park, resort hotel and the related uses. The Phase 2 site is currently being used as temporary quarantine facilities. It is expected that such arrangement will last for some time. The Government will review the long-term planning of the land concerned in an open-minded manner.

Deliberations at the Panel meeting

13. The Panel was last briefed on the operation of HKDL in 2019-2020 at the meeting on 24 May 2021. Members noted that HKDL's business performance was adversely affected by the tourism downturn arising from the social unrest in the first quarter of the Fiscal Year 20 ("FY20"), and the COVID-19 pandemic in the remainder of FY20. As part of the Government's anti-epidemic measures, HKDL closed its theme park for about seven months in FY20. The park attendance in FY20 dropped by 73% year-on-year to 1.7 million and the average hotel occupancy was 15%. HKDL's total revenue in FY20 dropped by 76% to \$1.4 billion, as compared with that in the previous fiscal year. Notwithstanding the fixed costs involved to maintain HKDL's operations, HKDL implemented various cost containment measures to sustain its financial position, including one-day-per-week unpaid leave for all staff, cancellation and scaling down of seasonal and marketing events, etc. Despite all the efforts made, EBITDA were negative \$1.5 billion and a net loss of about \$2.7 billion was recorded in FY20.

14. Members in general considered that the net loss of HKDL in FY20 was within expectation given that HKDL was closed for nearly 60% of the calendar days in the year. However, members were worried about HKDL's financial sustainability in the long run, taking into account its repeated net losses over

the past years. In view of the deteriorating financial situation, some members were concerned about the progress of the Plan.

15. HKDL advised that for HKDL's business recovery, it was important to resume cross-border travel so that HKDL could receive both local and non-local visitors. Currently, HKDL focused on attracting local visitations, and the average daily number of local visitors during the operating days in the first half of FY21 surged by 46% over the same period in FY20 together with spending increase. HKDL was optimistic about the long-term business potential upon resumption of travelling between Hong Kong and the Mainland and other overseas economies. It would roll out marketing campaigns in different source markets and focus on the Guangdong-Hong Kong-Macao Greater Bay Area market to capture the opportunities brought by the well-developed cross-boundary transport infrastructure. The Third Runway of the Hong Kong International Airport to be commissioned shortly was also expected to bring more visitors from the international market.

16. On the progress of the Plan, HKDL advised that certain new attractions had been commissioned and rolling out progressively from 2018 onwards. Under the impact of the pandemic, development schedule of certain projects was affected by various issues including the delay in transporting construction materials, and the completion date had yet to be specified. The Administration stressed that HKDL and all businesses in Hong Kong were facing difficult business environment amidst the pandemic, and it was difficult to anticipate when the market conditions would recover. It was hoped that HKDL could sustain its operations by reducing operating costs, while gearing up for receiving non-local visitors when cross-boundary/border travel resumed. Currently, HKDL was utilizing the revolving credit facility provided by TWDC to support working capital and operational needs. In the long term, it was essential for Hong Kong to bring the epidemic under control so as to re-open the boundary/border and resume travel activities with places considered to be safe.

Council questions

17. At the Council meetings of 28 March, 13 June, 4 July 2018, 20 November 2019, 18 March, 28 October and 2 December 2020, Hon WU Chi-wai, Hon Tony TSE, Hon Andrew WAN, Hon Holden CHOW and Hon Alice MAK 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 FY21 at the meeting on 28 March 2022.

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	22 June 2020 (Item III)	Administration's paper Administration's follow-up paper Letter from Hon WU Chi-wai dated 23 June 2020 (Chinese version only) Administration's response to Hon WU Chi-wai's letter Background brief Minutes
	24 May 2021 (Item III)	Administration's paper Administration's follow-up paper Background Brief Minutes
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

Issued by	Meeting date/ Issue date	Paper
	18 March 2020	<u>Council question on “Issues relating to the novel coronavirus epidemic” raised by Hon WU Chi-wai</u>
	28 October 2020	<u>Council question on “A site originally reserved for the Hong Kong Disneyland” raised by Hon Andrew WAN</u>
	2 December 2020	<u>Council question on “Supply of land and housing” raised by Hon Alice MAK</u>