Hong Kong Disneyland
Third Party Investors

Some commentators have queried why WD and the Government are the only two partners in Hong Kong Disneyland at this stage. They have suggested that either this is a sign of greater Government intervention in the economy or that potential third party investors, having seen the forecast financial returns, have withdrawn from the project. Neither conclusion is correct.

2. Two important points should be borne in mind:

— Government’s role in HK as owner of all land, our role in seeking authority for reclamation, our experience in managing large-scale reclamation, our responsibility for infrastructure etc. make it inevitable that we must play a leading role at the outset.

— Negotiations in Tokyo took 5 years; Paris 2½ years. In HK the intensive phase has taken just 9 months.

The project could not have been negotiated on the terms now agreed and in the tight timetable that was required if a third party (or parties) had been involved in addition to the Government and Disney.

Possible third party investors

3. There are two broad categories of potential third party investors:

(a) independent investors, who would see the project purely in investment terms, and who would therefore look for acceptable returns on equity; and

(b) strategic investors (e.g. airlines, travel agents) who would see advantage in a tie-up with a major tourist attraction, and who consider these factors in addition to the return on equity.

The project could potentially appeal to both categories of investors. We have said previously that at Base Case the forecast return on the
Government’s investment is higher than that in other infrastructure projects, such as the airport or railways, of around 10%.

Entry Arrangements

4. Third party investors can become shareholders in HKITP immediately but subject to certain conditions, the main ones being

   (i) WD will always be required to subscribe for and hold a minimum of 1.9 billion shares; and

   (ii) the Government must hold a minimum of 1 billion shares until one year after opening (thereafter, no required minimum).

5. In the period up to the issue of 5.7 billion shares in total, the two original shareholders must agree the identity of third party investors and each has absolute discretion to withhold approval. After full capitalisation, the two original shareholders have the option to agree criteria for identifying third party investors to whom they could sell issued shares. Thus in this period

   — if there are no agreed criteria, each party retains absolute discretion to withhold approval

   — if there are agreed criteria, but the proposed Third Party does not meet them, each party still has that absolute discretion

   — if there are agreed criteria and the Third Party meets them, neither original party can unreasonably withhold consent.

6. The original shareholders are permitted to reduce their obligation to subscribe and are able to sell down any shares for which they have subscribed, by the following amounts:

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<tr>
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<th>WD</th>
<th>Government</th>
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<tbody>
<tr>
<td>1st 600 million</td>
<td>400</td>
<td>200</td>
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<tr>
<td>2nd 600 million</td>
<td>150</td>
<td>450</td>
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<td>Thereafter</td>
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<td>All</td>
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7. Neither the Government nor WD have yet proposed any Third Party investors to the other. Both hope that some would be identified in the next year or so.

Tourism Commission
Economic Services Bureau
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