

**For discussion on
21 December 2007**

**Legislative Council Panel on Economic Development
Progress update on Hong Kong Disneyland**

Purpose

This paper gives an update on Hong Kong Disneyland (HKD) since the last report to Members in December 2006.

Background

2. HKD opened on 12 September 2005. It is one of Government's strategic initiatives for invigorating tourism and for positioning Hong Kong as a premier destination for family travel. It provides a world-class theme park with quality family recreational facilities. In 2006, the number of overnight family visitors and visitors under the age of 16 increased by 15.8% and 23.5% respectively as compared to 2005. 36% of our overnight family visitors brought along their children to Hong Kong, up from 26% in 2005. The presence of HKD helps to anchor this important market segment.

3. HKD is owned by a joint venture company, Hongkong International Theme Parks Limited (HKITP), with Government and The Walt Disney Company (TWDC) being the shareholders. Hong Kong Disneyland Management Limited, a wholly owned subsidiary of TWDC, manages HKD. HKITP operates under the supervision of a Board of Directors, which comprises five Government directors¹, four Disney directors and two independent non-executive directors. HKD is now in its third year² of operation.

¹ The five government directors beginning from 1 July 2007 include the Financial Secretary, Secretary for Commerce and Economic Development, Secretary for Financial Services and the Treasury, Secretary for Development and Commissioner for Tourism.

² Each year of operation of HKD starts in October and ends in September the year after.

Park Operation

4. The park received over 4 million visitors in its second year of operation. It is lower than the number of visitors in the first year. According to HKITP, such pattern is comparable to the experience of theme parks worldwide, having regard to pent-up interest during the development phase. Thus far, the park has received over 10 million visitors. The attendance figure puts HKD within the top 20 theme parks in the world. According to ongoing guest surveys conducted by HKITP, 90% of visitors rated their experience at HKD as positive, and 92% expressed their intent to visit the park again. These compare favourably with the 85% rating for both indicators in the opening year.

5. Unlike other tourist attractions which are not well-known outside the region, HKD is more internationally oriented. In its second year of operation, there was a shift of attendance from locals to international and Mainland China visitors –

Year	Breakdown of visitors by place of origin		
	Local	Mainland	International
2005-06	42%	34%	24%
2006-07	31%	39%	30%

6. Other than the park, the two hotels³ at the Resort also offer a unique and enchanting Disney experience. The hotel occupancy improved by five percentage points in 2006-07 and this positive trend continues in 2007-08. 97% of the hotel guests were positive about their experience, and 94% indicated their intent to return. These compare well with 96% and 88% for the first year of operation.

7. As part of the development strategy, HKD has identified the Meetings, Incentives, Conventions and Exhibitions (MICE) business as a potential growth area. Business levels for 2007-08 have recorded an evident increase compared to the second year of operation so far. The two hotels also provide unique venues for weddings. The business in this respect has recorded steady growth in the past two years. HKD will continue to leverage its strength in this market segment to improve the hotel business.

³ The two hotels are Hong Kong Disneyland Hotel and Disney's Hollywood Hotel.

8. HKD is acutely aware of public aspirations for enhancing the park experience. Since opening, the park has launched five new attractions. They include Autopia, UFO Zone, Stitch Encounter, Animation Academy and Mickey's Water Works. The opening of "it's a small world" in spring 2008 will be the next major new attraction in the park. In addition, four smaller-scale attractions will come on board in 2008 to enhance the general atmosphere of the park and enable visitors to experience more sightseeing and interactive activities.

9. Recently, HKD negotiated with the commercial lenders to re-schedule its commercial term loan facility of \$2.3 billion and the revolving credit facility of \$1 billion. Further, the original loan agreement contained semi-annual financial performance covenants and had a final maturity date of 26 October 2015. Under this latest HKITP's agreement with the lending group, the financial performance covenants are removed, the maturity of the loan facility is advanced to 30 September 2008 and the amount of the credit facility is reduced to \$800 million with effect from 14 November 2007.

10. While recognising that the HKD is in its early start-up operating phase, Government, as the major shareholder of HKITP, is not satisfied with the performance of the park. We have urged the management company to continue to improve operational efficiency and devise cost-effective marketing strategies. TWDC has also agreed to waive the management fees and defer royalties for two years (i.e. 2007-08 and 2008-09) until HKITP improves its financial condition.

Marketing and Promotion

11. Disney is an internationally recognised brand and has a track record of running large-scale theme parks in the United States. However, it is taking time to adapt to the local operational environment. From the experience over the past two years of operation, HKITP has identified certain areas where further improvements are required.

(a) Enriching visitors' experience

12. The average length of stay of guests in HKD in 2006-07 is seven hours. This is proportionally on par with that in the Disneyland Park in

California, taking into account the number of in-park attractions. However, the perceptions that the park is too small and that there is “not enough to do” remain a top barrier to visitation. In response, HKITP has enhanced its calendar of special events, in order to enrich guest experience and attract more first-time and repeat visitors.

(b) Targeting the young adult segment

13. In addition to family market which is the traditional core market for Disney theme parks around the world, HKD has also identified young adults as a target. The strategy is partly to address the fact that family visitation is highly seasonal, correlated to the school holiday schedules.

(c) Catering for the Asian/Chinese market

14. HKD considers that there is a need to cater for the tastes of local visitors in presenting a Disney theme park that is unique to this part of the world. The Fantasy Garden is the first of its kind among the Disney theme parks in the world, tailoring for the love of local and Mainland visitors for photo-taking. Besides, “Stitch Encounter” in Tomorrowland also adopts interactive animation technologies with Cantonese and Putonghua versions, in addition to English. Visitors to HKD will be able to see more features that are uniquely Chinese and Asian in upcoming attractions including “it’s a small world”.

(d) Introducing flexible ticketing arrangement

15. At end September 2006, HKD launched an Annual Pass programme offering greater flexibility and convenience for guests who make repeated visits to the park. The programme has been progressing on target, with the number of passes sold exceeding 110 000. Over 95% of the Annual Pass holders are Hong Kong citizens.

(e) Building rapport with the local travel trade

16. Recognising the importance of the travel trade, HKD seeks to strengthen relationships with key trade partners, expand distribution channels as well as adapt products and processes to cater for the Asian marketplace.

Since opening, the company has increased the number of sales partners from 50 to 130.

(f) Sharing of market information

17. HKD is also working closely with the Tourism Commission and the Hong Kong Tourism Board in exchanging experience and market information, in particular for the Mainland markets. It will devise a more thorough marketing strategy through detailed research on consumer segment penetration in individual markets. This would help HKD deepen its reach in the priority markets and other potential new markets.

Staffing

18. As of 1 December 2007, HKITP's work force is at approximately 5 000-strong, employing one of the biggest teams of entertainment and performance talents in Hong Kong. In view of the high seasonality of theme park operation, HKITP has adjusted the mix of its full-time and part-time staff to tailor for its operational needs.

19. HKITP recognises the importance of employee training and development for its workforce, the majority of whom are between the age of 20 and 29, and have been with the company for two to five years. During the second year of operation, a total of 208 656 hours of in-house training and educational programmes were provided to the staff. The average training time per Cast Member⁴ is 44.61 hours, higher than 41.76 hours for the first year. HKITP also attaches priority to its relationship with the Cast Members and has maintained continuous dialogues with union representatives and Cast Members through Cast forums and different internal channels.

Corporate Social Responsibility

20. HKITP continues to engage the local community through HKD's community relations programmes and voluntary service. Since opening, it has supported over 300 charities and non-profit organisations. Its Cast Members have, under the Disney VoluntEARS programme, contributed over 15 000 hours of community services.

⁴ A cast member is a full-time or part-time employee working in Hong Kong Disneyland Resort.

21. Children are the focus of HKITP's charitable efforts. The company has worked extensively with government agencies and non-profit organisations in supporting their children welfare initiatives. Through these partnerships, HKITP has hosted thousands of underprivileged children and in particular those with special medical and/or development needs.

22. HKITP is also committed to grooming local entertainment and performance talents. As part of its efforts to support training professionals in the hospitality and tourism sector, the company announced earlier a programme to provide 160 industrial placements for students of the Hong Kong Institute of Vocational Education. With funding from TWDC, HKITP has also launched a scholarship programme which will benefit 12 students from the Hong Kong Academy for Performing Arts each year.

Improvement and Commitment

23. Drawing on the learning of the first two years of operation, HKD is revamping its promotional strategy to broaden and deepen its market reach in Hong Kong, as well as the Mainland and overseas. At the same time, efforts are made to enrich the in-park experience of different target segments. The Government and TWDC are committed to realising the benefits of the long-term investment in the project. Both have just commenced discussions on the expansion plan and long-term financial arrangement of HKD. We will keep Members informed of the progress of the discussion.

Tourism Commission
Commerce and Economic Development Bureau
December 2007