

**For discussion on
16 December 2008**

Legislative Council Panel on Economic Development

Hong Kong Disneyland

Purpose

This note gives Members an update on the operation of the Hong Kong Disneyland (HKD), and seeks Members' views on a proposal to create a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post in the Tourism Commission, Commerce and Economic Development Bureau for nine months.

Update on HKD

2. HKD has just completed its third year of operation. The note at **Annex I** gives an update on the park's operation since the last report to Members on 21 December 2007.

Staffing Proposal

3. The Tourism Commission currently has a supernumerary AOSGC post to deal with matters relating to HKD. The post will lapse in February 2009. We propose to create a supernumerary AOSGC post for nine months up to November 2009, so as to continue to support the on-going discussions between the Government and TWDC on a proposed expansion plan for HKD and possible capital realignment of the joint-venture company that was formed to develop and operate HKD. Details of the proposal are set out at **Annex II**.

Advice Sought

4. Members are invited to note the update on HKD's operation at **Annex I** and give advice on the staffing proposal at **Annex II**.

Tourism Commission
Commerce and Economic Development Bureau
December 2008

Update on Hong Kong Disneyland

Purpose

This paper gives an update on the operation of the Hong Kong Disneyland (HKD) since the last report to Members in December 2007.

Background

2. 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. The Board of Directors of HKITP comprises five Government directors¹, four Disney directors and two independent non-executive directors. HKD is managed by the Hong Kong Disneyland Management Limited (“management company” hereafter), a wholly-owned subsidiary of TWDC.

2007-08 Performance Overview

Attendance and guest mix

3. Opened on 12 September 2005, HKD has just completed its third full year of operation. As at end November 2008, it has received over 14.5 million visitors since its opening in 2005. In 2007-08 (from October 2007 to September 2008), HKD’s attendance grew by 8% year-on-year. Such growth was particularly remarkable in view of the unusual weather conditions that hit the region throughout the year.

4. Compared to the previous year, there was a shift towards local visitors in HKD’s guest mix in 2007-08. This is attributable to the increase in Annual Pass holders and expanded special events targetting the local young adult market.

¹ From 1 July 2007, the five Government directors are the Financial Secretary, Secretary for Commerce and Economic Development, Secretary for Financial Services and the Treasury, Secretary for Development and Commissioner for Tourism.

<i>Year</i>	<i>Visitors by place of origin</i>		
	<i>Local</i>	<i>Mainland</i>	<i>International</i>
2005-06	42%	34%	24%
2006-07	31%	39%	30%
2007-08	40%	34%	26%

5. According to surveys conducted by the management company, in 2007-08 guests stayed an average of seven hours in the park, and about 90% of them intended to re-visit HKD in the future and would recommend the park to others. Overall satisfaction of the theme park is maintained at over 90%.

6. The two hotels² at the Hong Kong Disneyland Resort recorded a combined occupancy rate close to 80% in 2007-08, representing an eight percentage point growth from the previous year.

New attractions and special events

7. To sustain HKD's appeal to visitors, a number of new attractions had been launched progressively since the park's opening in September 2005. These new attractions include Autopia, UFO Zone, Stitch Encounter, Animation Academy and Mickey's Water Works.

8. "It's a small world", opened in spring 2008, is the newest major attraction in the park and has proved to be highly popular. In addition, four smaller-scale attractions, namely Art of Animation, Finding Nemo: Turtle Talk with Crush, High School Musical: Live! and Muppet Mobile Lab, have come on board in 2008 to enhance the general atmosphere of the park and to enrich visitors' experience.

9. The park has also been driving attendance through special events at festive seasons such as Christmas, the Chinese New Year and Halloween. In particular, attendance to the Haunted Halloween recorded double-digit growth this year.

² The two hotels are Hong Kong Disneyland Hotel and Disney's Hollywood Hotel.

Financial arrangements and performance

10. With a view to improving the financial performance of HKITP, TWDC agreed to waive the management fees and defer the receipt of royalties for two years (i.e. 2007-08 and 2008-09).

11. In accordance with an agreement reached between Government and TWDC in September 2008, TWDC loaned \$3.26 billion (consisting of a term loan and revolving credit facility) to HKITP. The TWDC loan was used mainly to repay the company's commercial loan. The interest rate and other terms of TWDC's loan are more favourable to HKITP than those entailed by a possible extension of the then commercial loan.

12. HKITP's MICE business has registered healthy growth with its banqueting business almost tripled since the resort's opening in 2005. Merchandising and F&B (food and beverages) revenues grew year-on-year in line with the overall attendance growth. Per capita spending on merchandise in HKD is higher than those in the Disney parks in the United States.

Marketing and promotion

13. The management company has enhanced the penetration into the local market in 2007-08, in particular through the Annual Pass programme. Since the launching of the annual pass program in September 2006, more than 128 000 passes had been sold, including a 28% year-on-year increase in 2008.

14. The management company has also been strengthening sales and marketing efforts in the Mainland China by expanding sales teams in Shanghai, Beijing and Guangzhou. It is also building relationships with more trade partners with a view to increasing coverage from 32 to 39 cities by end 2009. In 2008, the Halloween marketing and sales programme was extended to Guangdong and Taiwan.

15. In 2007-08, the management company partnered with the Hong Kong Tourism Board in the Olympics and Halloween promotion campaigns, and in developing new markets such as India. Support from the travel trade

has increased continuously, with the number of sales partners increasing by 41% since the opening of the park.

Staffing

16. As of 30 September 2008, the full time workforce engaged by HKITP / the management company stood at approximately 4,500-strong, including one of the biggest teams of entertainment and performance talents in Hong Kong. Another 1,400 part-time staff are engaged to cope with the increased demand at Halloween, Christmas, Chinese New Year, summer holidays and on special occasions.

17. The management company continues to attach importance to training and development of its employees, the majority of whom are between the age of 20 and 29, and 46% come from New Territories West. During 2007-08, the average training time per Cast Member³ was 49 hours. 300 disabled people have been employed by the management company in the past three years, and 62 of them have joined the company's Disabilities Apprenticeship programme which assists them in adapting to working life.

Corporate social responsibility

18. To deepen HKD's linkage with the local community, the management company has engaged in a range of community activities mostly for children and youths. It has reached over 100 000 underprivileged children in particular those with special needs since the opening of the park. Two examples of the company's programmes for children are –

- (a) the Disney Children's Fund was launched in 2008 to support innovative and creative children welfare programmes implemented by seven NGOs with grants totalling \$1 million. In the five months since its inception, hundreds of children have participated in the programme; and
- (b) the Disney Children's Programmes in Hospitals was launched in January 2008 with a commitment of more than 1,000 volunteer hours servicing several local hospitals.

³ A cast member is a full-time or part-time employee working in Hong Kong Disneyland Resort.

The management company has also made about HK\$2 million worth of in-kind merchandise and equipment donations. HKD's Cast Members have devoted 4 100 hours to community service in 2008.

19. To contribute to the grooming of local entertainment and performance talents, the management company awards 12 study scholarships to students of the Hong Kong Academy for Performing Arts each year. In 2007-08 the management company also introduced full-year internship programmes for 153 students of the Hong Kong Institute of Vocational Education, and provided about 100 student internship and placement in HKD. The management company also organised activities to promote environmental awareness among students and the general public.

Work Foci for 2008-09

20. Government and TWDC are in active discussions on an expansion plan proposed by TWDC for HKD which might involve a capital realignment of HKITP. In considering these issues, Government will take account of a number of factors, including the implications for Hong Kong as a leading tourist destination in the region, impact on HKD's attendance and business, incremental economic benefits with reference to tourist arrivals and job creation, financial viability of the expansion project, and return on Government's investment in the HKD project. We will keep Members informed of progress and report the outcome of the discussions in due course.

21. HKD continues to see strong momentum and growth over the last few months (attendance is 15% ahead of prior year) and has yet to see an immediate impact of the changing economic environment. Nonetheless, in preparation for the possibility of a slow down in attendance or spending given the challenging economic situation, the management company continues to implement cost containment measures and special promotions and offers in seeking to sustain the momentum of the business.

**Proposal to Create
a Supernumerary Administrative Officer Staff Grade C post
in the Tourism Commission**

Purpose

This paper seeks Members' views on a proposal to create a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post in the Tourism Commission (TC) for nine months up to 15 November 2009, to support the Government's discussions with The Walt Disney Company (TWDC) on a proposed expansion plan for the Hong Kong Disneyland (HKD) and possible capital realignment of the Hongkong International Theme Parks Limited (HKITP), a joint-venture company formed between Government and TWDC to develop and operate HKD.

Justifications

2. In August 2008, a six-month supernumerary AOSGC post was created under delegated authority in TC to support the discussions between the Government and TWDC on –

- (a) different options to address the maturity of HKITP's commercial loan;
- (b) an expansion plan for HKD proposed by TWDC; and
- (c) possible capital realignment of HKITP.

3. On (a), before HKITP's commercial loan matured in end September 2008, the Government and TWDC had explored different options to address its maturity, including seeking an extension of the commercial loan or retiring it with a shareholder's loan from TWDC. On (b) and (c), TWDC has proposed building new attractions for HKD which involves a capital realignment plan for HKITP. Both the proposed expansion and capital realignment plans would potentially have significant implications for Hong Kong's tourism landscape and Government's investment in the HKD project. Government therefore needs to carefully consider the merits of the proposed plans taking account of a number of factors, including the implications for Hong Kong as a leading tourist destination in the region, impact on HKD's attendance and business, incremental economic benefits with reference to tourist arrivals and job creation, financial viability of the expansion project, and return on Government's investment in the HKD project.

4. TC is required to take an overall lead with respect to the tasks set out in paragraph 2 above. In view of the complexity of the issues involved and the substantial Government investment at stake, we decided to create a six-month supernumerary AOSGC post in August 2008 so that a dedicated directorate officer with sufficient administrative experience could provide support to the Commissioner for Tourism and other senior officers throughout the discussions. Actual tasks of the post holder include liaison with different bureaux/departments and TWDC, assessing different options with input from relevant bureaux/departments, making recommendations to the Commissioner for Tourism and other senior officers, and formulating the Government's position in its discussions with TWDC.

5. With the support of a dedicated directorate officer and following intensive discussions, the Government and TWDC reached an agreement on the handling of the commercial loan in end September 2008, and have taken actions to retire the loan. The shareholders are now focusing on the proposed expansion plan for HKD and possible capital realignment of HKITP.

6. The existing supernumerary post will lapse in February 2009. We expect that the shareholders' discussion on the proposed expansion and capital realignment plans will not be concluded by that time. We consider it necessary to create a supernumerary AOSGC post for nine months so that a dedicated directorate officer may continue to provide crucial support to these discussions in the critical months ahead. Of note is that the discussions with the TWDC call for a large amount of back room work such as developing a negotiation strategy, providing analysis of different options with input from relevant bureaux/departments, and recommending to senior officers responses by Government at different stages. All these responsibilities require the input of a directorate post at the AOSGC level. In addition, the post holder will also lead some of the discussions with TWDC and be responsible for follow-up actions arising from the outcome of the shareholders' discussions.

7. While we have not set a timetable for the discussions with TWDC, the proposed duration represents our broad assessment of the time required to conclude our discussions with TWDC and to coordinate the immediate follow-up work. The job description for the supernumerary AOSGC post is set out in Enclosure A.

Financial Implications

8. The proposed creation of the supernumerary AOSGC post will require an additional notional annual salary cost at mid-point of \$1,518,000. The additional full annual average staff cost, including salaries and staff on-cost is \$2,038,000.

9. We will include the necessary provision in the 2009-10 Estimates to meet the cost of this proposal.

Alternatives Considered

10. Apart from the existing supernumerary post created for the Hong Kong Disneyland project, the Commissioner for Tourism is at present underpinned by one Deputy Commissioner for Tourism (AOSGB) (D3), and four Assistant Commissioner for Tourism (AC for T) (AOSGC/SPEO) (D2) posts including one supernumerary post created for the cruise terminal project. An organisation chart of TC and descriptions of the duties and responsibilities of the existing Assistant Commissioners for Tourism (AC for T) are at Enclosures B and C respectively.

11. We have critically reviewed the scope for reprioritising the duties among the existing ACs for T with a view to absorbing the duties of the proposed supernumerary post described in paragraph 6 above. The holders of the existing AC for T posts are currently fully engaged with their respective portfolios, and at a time of global economic downturn, they are expected to make extra efforts to sustain and promote tourism development and to ensure timely delivery of various tourism projects. We have hence concluded that it is not feasible for any of them to take up the duties of the proposed supernumerary post without compromising their existing responsibilities. We have also considered the specific suggestion that the duties and responsibilities relating to HKD be absorbed by the supernumerary directorate post created for the cruise terminal project. This is not feasible either as the workload of both posts are expected to be equally heavy and would require full and dedicated attention in the coming months.

Way Forward

12. Subject to Members' comments, we plan to submit the proposal of creating the supernumerary AOSGC post to the Establishment Subcommittee of the Finance Committee for consideration on 14 January 2009.

Job Description
Assistant Commissioner for Tourism (5)

Post title : Assistant Commissioner for Tourism (5)

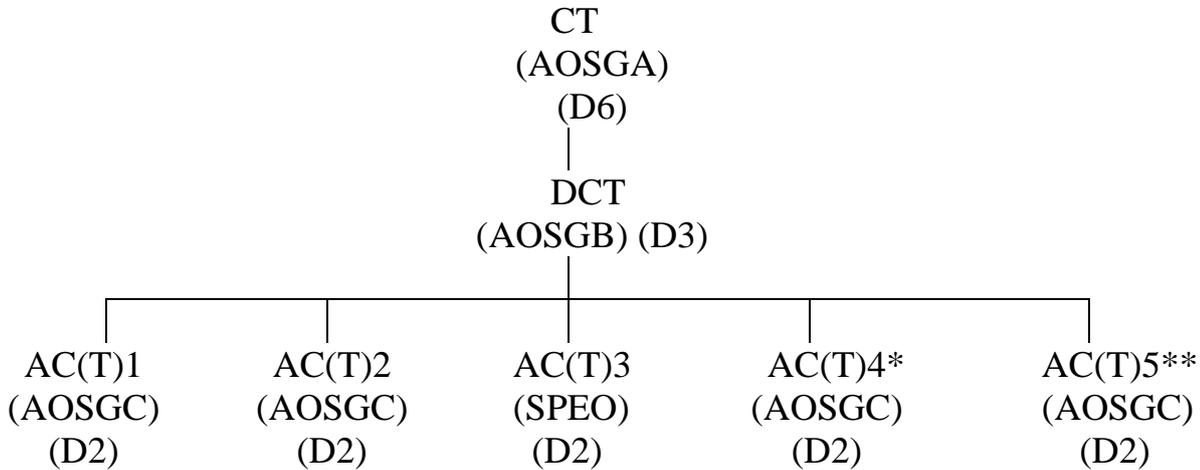
Rank : Administrative Officer Staff Grade C (D2)

Responsible to : Deputy Commissioner for Tourism

Main Duties and Responsibilities –

1. To consider the merits of the expansion plan proposed by The Walt Disney Company (TWDC) for the Hong Kong Disneyland (HKD) and recommend responses by the Government, with input from relevant bureaux and departments.
2. To consider the capital realignment plan proposed by TWDC for the Hong Kong International Theme Parks Limited (HKITP) and recommend responses by the Government, with input from relevant bureaux and departments.
3. To serve as one of Government's key points of contact with TWDC for matters relating to the shareholders discussions on the proposed expansion and capital realignment plans.
4. To support / lead working team discussions with TWDC on the proposed expansion and capital realignment plans.
5. To coordinate follow-up actions arising from the outcome of the shareholders' discussion on the proposed expansion and capital realignment plans.
6. To monitor the operation and financial performance of HKD, and provide administrative support to Government Directors on the HKITP Board.

Organisation Chart of Tourism Commission



Legend

CT	Commissioner for Tourism
DCT	Deputy Commissioner for Tourism
AC(T)	Assistant Commissioner for Tourism
AOSGA	Administrative Officer Staff Grade A
AOSGB	Administrative Officer Staff Grade B
AOSGC	Administrative Officer Staff Grade C
SPEO	Senior Principal Executive Officer

* Supernumerary post proposed for retention up to 31 December 2014; the proposal has been endorsed by the Establishment Sub-committee on 26 November 2008 and will be submitted to the Finance Committee for approval on 12 December 2008.

** Supernumerary post proposed for creation for nine months up to 15 November 2009.

**Duties and Responsibilities of
the Existing Assistant Commissioners (Tourism) (AC(T)s)**

AC(T)1 is responsible for the formulation of inbound and outbound tourism policy, and the promotion of service quality of the tourism industry. He/she housekeeps the Hong Kong Tourism Board, and is responsible for overseeing the Travel Agents Registry and liaison with the Travel Industry Council of Hong Kong. He/she has to liaise with Mainland authorities on the central, provincial and city level on tourism issues (including initiatives under CEPA, the Individual Visit Scheme and arrangements for Golden Week), and developing tourism cooperation with other countries and areas. He/she also monitors the impact of “Direct Link” on Hong Kong’s tourism development and helps formulate measures to address any such impact.

2. AC(T)2 oversees the \$5.5 billion Ocean Park Redevelopment Plan and proposed hotel development projects. He/she is also responsible for planning new tourism projects including development of the Ngong Ping Piazza. He/she has to work with and participate in international and regional tourism organisation fora such as the World Tourism Organisation, coordinate and promote MICE tourism initiatives and develop visitor facilitation measures. As part of his/her duty to monitor tourism performance, AC(T)2 works closely with the hotel industry to facilitate development of the sector. In addition, he/she serves as the Secretary to the Steering Committee on MICE and Alliance Group on MICE Promotion.

3. AC(T)3 is responsible for planning and implementing the Tourism District Enhancement Programme, including the improvement and beautification projects in Tsim Sha Tsui, Central & Western District, Stanley, Lei Yue Mun, etc. He/she is also responsible for managing and maintaining the light and sound show “A Symphony of Lights”, facilitating the smooth operation of the Hong Kong Wetland Park and Ngong Ping 360, co-ordinating the “Hospitable Hong Kong” Campaign, steering and co-ordinating the development and promotion of green, heritage and cultural tourism, and facilitating the staging of tourism and major events in Hong Kong. In addition, he/she oversees office administration and staffing matters of the Tourism Commission.

4. AC(T)4 oversees and coordinates matters relating to the development of a new cruise terminal at Kai Tak, and provides support to an inter-departmental Committee on the Development of New Cruise Terminal Facilities to monitor the overall progress of the new cruise terminal project. He/she is responsible for engagement with the cruise industry and travel trade, both local and international, on both hardware and software development of the cruise industry in Hong Kong to ensure that the new cruise terminal will meet the evolving market needs. He/she is also responsible for working with the Hong Kong Tourism Board, the cruise market and tourism sector to develop Hong Kong into a leading regional cruise hub, making interim berthing arrangements in the run up to 2013 and ensuring supply of talent to meet the cruise industry's longer term needs. He/she provides secretariat support to the Advisory Committee on Cruise Industry.