

**For discussion on
30 June 2009**

**Legislative Council Panel on Economic Development
Update on Proposed Expansion of Hong Kong Disneyland**

Purpose

This paper briefs Members on the in-principle agreement reached between Government and The Walt Disney Company (TWDC) in respect of an expansion of Hong Kong Disneyland (HKD) and the related financial arrangements, and seeks Members' support to submit the proposal to the Finance Committee (FC) for approval.

Operation of HKD

2. HKD was opened in September 2005, and consists of a theme park and two hotels. The site of HKD amounts to 125.4 hectares (ha), of which 72 ha are deployed for theme park, retail, dining and entertainment uses (the rest of the site is for hotel and car park uses). The theme park now provides four themed areas¹.

3. As at end May 2009, HKD has received over 17 million visitors. The two hotels recorded a combined occupancy rate close to 80% in the 2007-08 operating year. About 90% of the guests surveyed in 2007-08 expressed an intention to re-visit HKD in the future and would recommend the park to others. Satisfaction rates in respect of the theme park and hotels on average stood at about 90% and 96% respectively in 2007-08. HKD has also received over 50 awards for its service quality and innovative technology.

Financial arrangements

4. Following FC's approval in November 1999, Government and TWDC provided \$3.25 billion and \$2.45 billion respectively as equity to establish Hongkong International Theme Parks Limited (HKITP). Currently, Government's and TWDC's shareholding in HKITP are 57% and 43% respectively.

5. In addition to the equity injection, Government also provided approximately \$5.62 billion as a loan to HKITP, and received \$4 billion in subordinated equity, representing the land premium for the Phase 1 site. The joint-venture also obtained a commercial term loan of \$2.3 billion and a revolving

¹ Fantasyland, Tomorrowland, Adventureland and Main Street, USA.

credit facility of \$1 billion in 2000². In September 2008, the shareholders reached agreement to replace the above loan and revolving credit facility by a loan from a subsidiary company of TWDC.

6. In accordance with the agreement, the Government loan is scheduled for repayment over 25 years from the park's opening with the repayment of principal starting in the 11th operating year, i.e. 2015-16. The outstanding balance of the Government loan, including capitalised and deferred interest, is projected to be \$6.89 billion, and that of the TWDC loan is projected to be \$2.76 billion (including the drawn revolver amount) by mid July 2009.

Expansion of HKD

7. The shareholders started discussion on the HKD expansion and related financial arrangements in 2007. The discussion intensified from October 2008 and became more specific in the last six months with significant progress being made in May 2009. Both sides have now reached in-principle agreement to a package deal.

8. Government and TWDC firmly believe that an expanded HKD, with its additional number and variety of attractions, will broaden the park's appeal to different market segments, especially young adults. Moreover, the expansion will act as a catalyst in improving the park's operating and financial results. As a key component of Hong Kong's tourism landscape, strengthening HKD's appeal to visitors is crucial to the long-term tourism development in Hong Kong, especially amidst fierce competition in the region.

9. TWDC's expansion proposal comprises three new themed areas, namely "Grizzly Trail", "Mystic Point" and "Toy Story Land" (working titles), with a total land-take of about 23% of the area of the existing theme park. There would be more than 30 new attractions, bringing the total number of attractions in HKD to over 100. The new attractions will cater for a wide spectrum of visitors, in particular there will be "thrill" rides targeted at the young adult segment. A site plan, graphical images and brief descriptions of the new themed areas are at Annex A.

10. To advance and protect the interest of HKD, Government has sought and secured TWDC's assurance that "Grizzly Trail" and "Mystic Point" will be exclusive to HKD amongst Disney theme parks worldwide and "Toy Story Land" will be exclusive amongst Disney theme parks within the Asian region at the time of their respective opening. Moreover, the combination of key storylines and technological elements of these themed areas will not be substantially repeated in

² The revolving credit facility was changed to \$800 million in November 2007.

any other Disney theme park within five years from their opening.

11. TWDC estimates that the expansion would cost \$3.63 billion. The new attractions are expected to be completed in phases over five years by 2014.

Financial arrangements relating to the expansion and operation of HKD

Funding for the expansion

12. TWDC will contribute all the necessary new capital as equity for the construction of new attractions as well as for sustaining the park's operation during the construction years, and to convert the entire outstanding balance of the TWDC loan (\$2.76 billion as stated in paragraph 6) to equity. To cater for unforeseen cash flow requirements during the construction years, a revolving credit facility of \$300 million provided by TWDC will be retained. Government will not inject any new capital for the expansion.

Deleveraging

13. To contribute to the deleveraging of HKITP while maintaining Government's majority shareholding in the joint-venture, we propose to also convert the Government loan to equity but retaining a balance of not less than \$1 billion.

14. According to current projections, upon the aforementioned capital injection by TWDC and conversion of the Government and TWDC loans, Government will continue to be a majority shareholder of HKITP with ownership of about 52%. The present composition of the HKITP Board of Directors, which comprises five and four directors nominated by Government and TWDC respectively, and two independent non-executive directors as agreed by the shareholders, will remain unchanged. In accordance with the 1999 approved financial arrangement, the \$4 billion subordinated shares that represented the land premium could, depending on the performance of the park, be converted to ordinary shares progressively following the park expansion.

New arrangements for calculation of management fee and payment of royalties

15. HKD is managed by the Hong Kong Disneyland Management Limited. To encourage the management to deliver results, Government has obtained TWDC's agreement to revise the formula for calculating the management fee to link it to HKITP's performance, i.e. to replace the current formula of 2% of gross revenue by 6.5% of earnings before interest, tax, depreciation and amortisation (EBITDA). A mechanism will also be put in place such that payment of royalties to TWDC's related company/licensor by HKITP would be

deferred in the event that HKD's financial performance is hampered by adversity. With a view to preserving cash flow under such circumstances, the payment of interest and principal of the retained Government loan will also be deferred.

Enhanced transparency

16. To enhance the transparency of the operation of HKD, TWDC has agreed to make annual disclosure of main operating and financial results of HKD, including park attendance and key indicators of financial performance, starting from 2008-09.

17. A fact sheet on the package deal is at Annex B.

Assessment

Economic benefits of expanded HKD

18. TWDC has made two sets of projection on attendance of the expanded HKD (used in "Case 1A" and "Case 1B" below). Based on past data and some broad assumptions, Government has made a separate set of projections on HKD's attendance (used in "Case 2" below). The economic benefits of the expanded HKD for the above three cases have been studied. In respect of "Case 1A", the present value of net economic benefits is estimated at \$59.2 billion at 2008 prices over a 20-year operation period (by 2024-25) and \$117.3 billion over a 40-year operation period (by 2044-45), with average annual real economic rates of return of 17.7% and 18.6% respectively. The corresponding present values of net economic benefits for "Case 1B" are \$51.4 billion for a 20-year operation period and \$98.4 billion for a 40-year operation period. The corresponding average annual real economic rates of return are 17.0% and 17.8% respectively for the two operation periods.

19. In "Case 2", the HKD project would bring about net economic benefits of \$23.9 billion at 2008 prices in present value terms over a 20-year operation period, with an 11.9% average annual real economic rate of return. Over a 40-year operation period, the present value of net economic benefits at 2008 prices would be \$64.7 billion and the average annual real economic rate of return 13.7%.

20. TWDC estimates that the construction of the park expansion would create about 3,700 jobs in terms of man-years between 2009 and 2014, and another 600 full-time equivalent jobs in HKD after the completion of the expansion. Government estimates that the total number of jobs (in terms of man-years) created in the economy stemming from additional spending of HKD visitors would range from 20,600 in "Case 2" to 38,400 in "Case 1A" in 2024-25.

21. The results of Government Economist's assessment of the economic benefits of an expanded HKD are outlined in Annex C.

Impact on operation of HKD

22. The new themed areas will enhance the appeal of HKD and contribute to the park's revenue and profitability. With the conversion of the TWDC loan and part of the Government loan to equity, HKITP will be substantially deleveraged. In the event that HKD's financial performance is hampered by adversity, the revised formula for calculation of management fees, new mechanism for the deferral of royalties as well as the corresponding deferral of payment of interest and principal of the retained Government loan would help preserve the company's liquidity.

Financial implications for Government

23. According to the plan and on the basis of current projections, following the conversion of part of the Government loan, Government would continue to maintain a majority shareholding in HKITP.

24. The estimated return on Government's existing equity and new equity after loan conversion is about 5% if "Case 1A" is achieved. Under the more conservative scenario of "Case 1B", Government's return on its investment is about breakeven.

Way Forward

25. As mentioned in paragraph 1 above, we plan to seek FC's approval of the proposed conversion of the Government loan to equity in HKITP at its meeting on 10 July 2009. Subject to and following approval by FC, TWDC will proceed to complete the design work on the proposed new attractions, with a view to commencing the construction work in 2009.

Views Sought

26. Members are invited to note and comment on the various arrangements outlined in paragraphs 8 to 17 above.

*Tourism Commission
Commerce and Economic Development Bureau
June 2009*



Grizzly Trail 野礦山谷

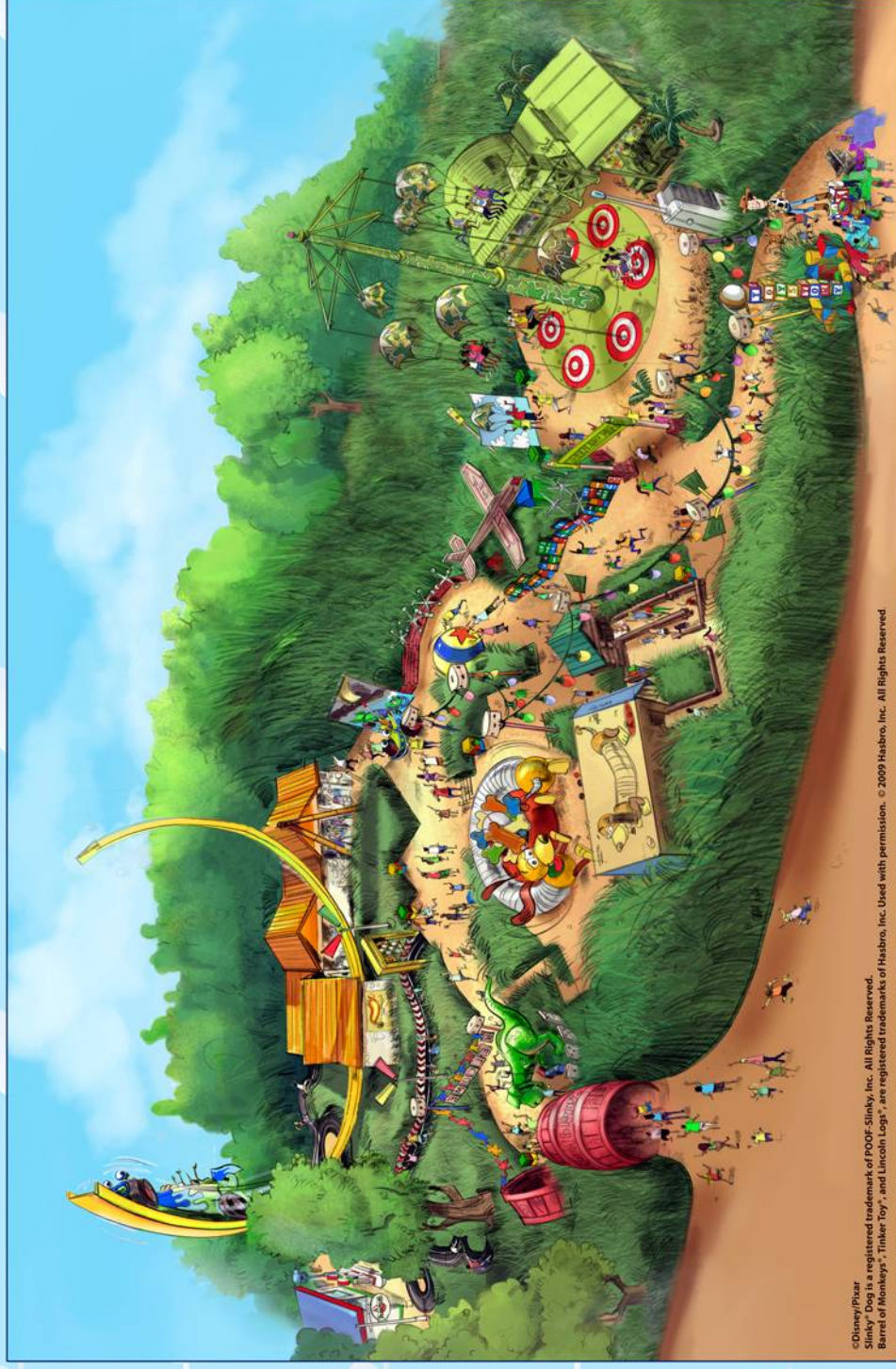


Mystic Point 迷離莊園



©Disney

TOY STORY LAND 反斗奇兵歷奇地帶



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WALT DISNEY PARKS AND RESORTS

Hong Kong Disneyland Expansion: Unique Attractions and Stories for Hong Kong



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With the addition of more than 30 new attractions, play and entertainment experiences, Hong Kong Disneyland's total number of rides and attractions will increase by almost 50 percent and top one hundred. When completed, the expansion will increase HKDL's physical footprint by approximately 23 percent; broaden the park's appeal by adding more experiences for young adults; and place increased focus on universally-understood stories. Using Guest feedback as a guide, these three new themed areas will create memorable guest experiences, drive strong word of mouth and repeat visitation, and offer many unique only-available-in-Hong-Kong attractions that feature Disney's immersive storytelling and innovative technology.

Grizzly Trail (Note)

Grizzly Gulch, Frontier Gold-Mining Town

The path along Grizzly Trail offers high-spirited frontier fun in an abandoned mining town called Grizzly Gulch, set amidst mountains and woods. The town was founded August 8, 1888 – the luckiest day of the luckiest month of the luckiest year – by prospectors looking to discover gold. Bears have now started causing havoc at the Big Grizzly Mountain Mining Company.

Key Technology and Creative Elements

- Guests visiting Grizzly Gulch are part of the action, experiencing **hands-on water features, massive geysers and various leaking structures** in the abandoned town.
- **Life-size Audio-Animatronic® bears** set the story in motion on Big Grizzly Mountain Coaster, an adventure aboard a **runaway mine train through town**. Guests careen backward down an incline that propels them through twists and turns, before a **launch sequence "blasts" the mine train out of the mountain**.
- A **Wild West stagecoach**, an old time Jail House, and the **world's largest nugget of gold** provide fun photo opportunities.
- Guests can relax with a **Wild West refreshment at the old Saloon** or shop for mining supplies and souvenirs at the **Bear Necessities merchandise stand**.

Mystic Point (Note)

Mystic Point is the site of mysterious forces and supernatural events in the heart of a dense, uncharted rain forest.

In **Mystic Manor**, home to an eccentric world traveler and adventurer and his collection of exotic international artifacts, strange things are afoot as an enchanted music box releases its magical powers, thanks to a mischievous monkey.

Key Technology and Creative Elements

- Inside Mystic Manor, a **trackless ride system enables vehicles to move "freely" about the attraction** as the story unfolds. **Audio-Animatronic® figures and special visual and audio effects** help tell the story of mystical phenomena.
- Within Mystic Point lies a **beautiful garden full of relics and mythological figures**, where guests discover a **hidden world of illusions and mysteries** that trick the eye.
- **Guests can dine at the Adventurer's Club** amid a vast collection of unusual artifacts from around the world or purchase **exclusive curiosities and collectibles at the Archive Shop**.

Toy Story® Land (Note)

Disney·Pixar-themed Play Area for Kids of All Ages

Andy, the young boy from the Disney·Pixar *Toy Story* films, has left his toys unattended in this immersive and highly themed environment, based on one of Disney·Pixar's most popular film series. While Andy is away, the toys come to life and play...and Guests are invited to join!

Key Technology and Creative Elements

- **Oversized outdoor rides and photo opportunities** allow Guests to experience the different perceptions of scale, and **shrink to the size of a toy**.
- One attraction includes a **shuttle coaster which propels Guests along a U-shaped style track**.
- A **drop-style parachute attraction** lets Guests join a **"training mission,"** plunging from a 25m tall tower.
- Guests will enjoy **fun, immersive and interactive environments with life-size toys**.
- A **themed food kiosk** provides a barrel of fun snacks and refreshments and Guests can shop for **Toy Story inspired collectibles at the merchandise location**.

Note : The titles may be subject to change.

華特迪士尼樂園及度假區 香港迪士尼樂園擴建： 展現香港獨有的故事世界與娛樂消閒設施



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香港迪士尼樂園完成擴建後，將新增超過三十個設施。令全樂園設施總數增加差不多一半至逾一百個。屆時，樂園面積將擴大約百分之二十三。新增遊樂設施會為年輕賓客帶來更多全新體驗，呈獻膾炙人口的故事，進一步提升樂園的吸引力。香港迪士尼樂園三個嶄新的主題園區均經仔細研究賓客意見後設計，內設一眾香港獨有的設施，結合迪士尼故事特色和應用創新科技，創造難忘體驗，贏得口碑之餘，吸引賓客一再訪。

野礦山谷 (Grizzly Trail) (備註)

徧遠淘金小鎮

在這個荒廢的淘金小鎮，野礦飛車沿路軌穿梭於高山和叢林中，展開刺激的荒野歷奇。一班尋金者在一個最幸運的日子 - 1888 年 8 月 8 日 - 建立淘金小鎮。一群大灰熊此時卻在野礦山礦業公司 (Grizzly Mountain Mining Company) 大搞破壞。

主要科技及創意元素

- 在野礦山谷這個荒廢淘金小鎮內，賓客可以走近噴水玩意，還可以在巨大的間歇噴泉及各式各樣的流水佈局中暢玩，體驗箇中樂趣。
- 由與實物原大的發聲機動 (Audio-Animatronic®) 大灰熊相遇開始，一段瘋狂駢馳的礦洞飛車歷程正式展開。大野礦山飛車 (Big Grizzly Mountain Coaster) 橫越整個小鎮，在崎嶇斜坡上急速倒後飛馳，弄得乘客東歪西倒，最後觸動裝置將飛車從山中高速「噴射」出來。
- 還有一台西部原野馬車 (Wild West stagecoach)、一間懷舊監獄 (old time Jail House) 以及世上最大金塊，讓你有機會拍下愉快有趣的回憶片段。
- 賓客可以在一間舊式旅館，一邊休息，一邊享用西部野礦風味小食；或者前往大灰熊必買店 (Bear Necessities merchandise stand) 選購採礦業相關的紀念品。

迷離莊園 (Mystic Point) (備註)

迷離莊園座落在茂密但人煙縹緲的熱帶雨林中心地帶，四周充斥著神秘力量，隨時發生不可思議的超自然事件。

迷離大宅 (Mystic Manor) 的主人是一位孤僻的旅行家及冒險家，他在大宅內收藏著來自世界各地的奇異珍品。在一個偶然的機會，一頭頑皮猴子釋放了魔法音樂盒的奇妙力量，隨即怪事連連。

主要科技及創意元素

- 迷離大宅內，一套利用嶄新科技操作的無軌驅車系統讓小車「自由」地「飄移」，配合整個故事情節，並採用發聲機動 (Audio-Animatronic®) 的塑像，加上特別視聽效果，演繹出充滿神秘力量的故事和意想不到的情景。
- 迷離莊園內有一個美麗花園，滿佈遺蹟和帶有神話色彩的雕像，將賓客引進一個充滿視覺效果的神秘世界。
- 賓客可以在擺放大量來自世界各地的特異工藝品的冒險家俱樂部 (Adventurer's Club) 用膳，又或者前往古董店 (Archive Shop) 選購獨有的奇趣精品和收藏品。

反斗奇兵歷奇地帶

(Toy Story® Land) (備註)

以迪士尼-彼思動畫作主題的設施，適合任何年齡人士。

迪士尼-彼思最受歡迎的電影系列之一《反斗奇兵》，電影故事內的小男孩安迪 (Andy) 在一個園地遺下他的玩具。他離開之後，這些玩具忽然變得活生生起來，更主動邀請賓客和他們一起在這個主題鮮明、令人流連忘返的樂園玩耍。

主要科技及創意元素

- 提供超大型戶外設施及拍照留影的機會，使您體驗自己仿佛縮小到玩具一樣大小，讓賓客體驗不同比例帶來的奇特觀感。
- 另一個熱點則以一台穿梭飛車接載賓客於一條 U 型軌道快速來回穿梭。
- 賓客亦可參加一個跳傘「訓練」旅程，嘗試從 25 米的高臺向下急墮的滋味。
- 您也可以走進真人大小的玩具堆中，盡情投入，尋找互動的樂趣。
- 還有一個主題美食亭提供一桶桶奇趣小食和點心。賓客也可以在精品店搜購《反斗奇兵》系列的珍藏紀念品。

備註：以上名稱可能改變

Hong Kong Disneyland Expansion and Financial Arrangements

Fact Sheet

Expansion of Hong Kong Disneyland (HKD)

- Add three new themed areas, namely “Grizzly Trail”, “Mystic Point” and “Toy Story Land” (working titles, see site plan, graphical images and brief descriptions attached). There will be more than 30 new attractions, including “thrill” rides targeted at the young adult segment, bringing the total number of attractions in HKD to over 100.
- “Grizzly Trail” and “Mystic Point” will be exclusive amongst Disney theme parks worldwide and “Toy Story Land” will be exclusive within the Asian region, for five years from their respective opening.
- The expansion will enlarge the area of the existing theme park by 23%.
- Project cost is estimated to be \$3.63 billion. The new attractions will be completed in phases within five years.
- The expansion will bring about 3,700 jobs (in terms of man-years) in the construction sector from 2009 to 2014, and another 600 full-time equivalent jobs in HKD after the expansion. Total net economic benefits of the expanded theme park (at 2008 prices in present value) over a 40-year operation period (i.e. up to 2044-45) would range from \$64.7 billion to \$117.3 billion under different scenarios.

Financial arrangements relating to the expansion and operation of HKD

- TWDC will contribute all the necessary capital as equity for the construction of the new attractions and for sustaining HKD’s operation during the construction years. It will also convert the outstanding balance of its loan to HKITP to equity.
- Government will not inject any new capital for the expansion. To help deleverage the joint-venture, Government will convert a substantial part of its loan to equity, retaining a balance of not less than \$1 billion. Under current projections, Government would continue to be a majority shareholder of the joint-venture.
- The formula for calculating the management fee will be revised to link it to the park’s performance. At times of adversity, the joint-venture may defer payment of royalties and payment of interest and principal of the retained Government loan, with a view to maintaining liquidity.

Enhanced transparency

- Starting from 2008-09, annual park attendance and key indicators of the park’s financial performance will be disclosed on an annual basis.

Updated Economic Assessment of the Hong Kong Disneyland (HKDL) Project

Introduction

The Government has updated the economic assessment of the Hong Kong Disneyland (HKDL) project (Phase I), which includes also the expansion currently proposed by the Walt Disney Company (TWDC). The economic costs and benefits for three scenarios have been studied, the first two based on TWDC's "Base case" attendance projection (hereinafter referred to as "Case 1A") and "Slower tourism case" attendance projection ("Case 1B"), and the third based on the Government's own attendance projection ("Case 2").

Methodology

2. The assessment framework is broadly similar to that of the assessment made in 1999. The quantifiable economic benefits of the HKDL stem from the *additional* spending in Hong Kong by visitors to the theme park. The methodology involves *firstly* projecting the level and composition of visitors to the HKDL, *secondly* estimating the additional spending of these visitors in Hong Kong, and *thirdly* assessing the value added or income, as well as additional employment, that can be generated by such additional spending.

3. For analytical purpose, the visitors to HKDL could be grouped into two categories, namely local visitors and tourists. The latter could be further broken down into *base tourists* (i.e. who would have visited Hong Kong even without the HKDL project but will spend additional time in Hong Kong to visit the HKDL) and *induced tourists* (i.e. tourists whose main purpose of coming to Hong Kong is to visit HKDL).

4. The additional spending in Hong Kong by visitors to the HKDL covers spending not only within the theme park, but also elsewhere in Hong Kong, over and above what would have been spent without the theme park. The *gross* economic benefits or value added thus derived from this additional spending are calculated in accordance with the specific operating cost structure of the sectors concerned. This value added comprises direct value added and indirect value added. Direct value added represents the gains of the respective business establishments and employment income for the workforce involved, generated initially from additional spending of the HKDL visitors in Hong Kong. The sectors of economic activity concerned are the theme park operation itself, as well as the retail, hotel, restaurant, transport and other tourism-related industries in the territory, and the local airlines. Indirect value added refers to the incomes generated from subsequent rounds of indirect spending on the further range of economic activities in support of these tourism-related sectors. The *net* economic benefits of the HKDL project are then obtained by matching the gross economic benefits against the economic costs of putting the HKDL theme park in place, which include both the capital expenditure for the theme park as well as the land formation and infrastructure costs.

Input parameters and results

(a) Attendance and spending

5. TWDC has provided attendance projection for two scenarios, namely the “Base case” and “Slower tourism case”, which have been used in “Case 1A” and “Case 1B” respectively. TWDC first made assumptions on the share of population in the overseas markets that have a certain level of income which allows them to travel to Hong Kong, and then made assumptions for the proportion of these tourists that would visit HKDL. In addition to the total number of visitors to the theme park, TWDC has also given the split of these visitors by market as well as by type of visitors (i.e. base tourists, induced tourists and local visitors). According to TWDC, when making these assumptions they have taken into account factors such as the World Tourism Organisation’s projection of tourist arrival growth to Hong Kong as well as their own survey data.

6. When projecting the input parameters for “Case 2”, the Government has taken into account the following information:

- (1) The actual number and additional spending of the base and induced tourists visiting the HKDL in FY 2006 to FY 2008, as estimated from survey data compiled by the Hong Kong Tourism Board (HKTb). These historical figures are then used, with suitable adjustment, for projecting the future penetration rates¹ and per diem spending for base and induced tourists. As to the number of local visitors and their spending, the historical data for FY 2006 to FY 2008 provided by TWDC are made use of when projecting the future trend;
- (2) the current economic environment, including the possible effect of the global financial tsunami on the total number of tourists visiting Hong Kong in the near term; and
- (3) the expected demographic changes in Hong Kong over the next 30 years or so, the increasingly closer economic integration with the Mainland, and possible challenges posed by intense competition within the region.

¹ Penetration rate for different types of visitor refers to the proportion of the market (tourists to Hong Kong or local residents) that would visit HKDL.

7. The major assumptions used in all the three cases are given in **Table 1** below.

Table 1: Major parameters in assessment (FY 2009 – FY 2045)

	Case 1A ^(a) (FY 2009 to FY 2026)	Case 1B ^(a) (FY 2009 to FY 2026)	Case 2 (FY 2009 to FY 2045)
Projected average annual growth rate of total tourists to Hong Kong	4.4%	2.2%	4.6%
Market penetration rate ^(b)			
Base tourists	7.6% to 11.7% (c)	7.5% to 12.0% (c)	6.0% to 8.7% (e)
Induced tourists	3.6% to 5.2% (c)	3.6% to 5.3% (c)	1.8% to 2.7% (f)
Locals	25.2% to 27.5% (d)	25.2% to 27.4% (d)	21.2% to 25.4% (d)
Additional length of stay for base tourists (nights)	0.7	0.7	0.7
Crowding-out effect on spending by local visitors ^(g)	50%	50%	50%

Notes:

- (a) TWDC does not provide market penetration rates for years beyond FY 2026.
- (b) Projected from the demand side. Capacity constraint of the theme park has not yet been taken into account.
- (c) Figures refer to the respective proportion of *total* tourists to Hong Kong that would visit HKDL.
- (d) Figures refer to the proportion of local population that would visit HKDL.
- (e) Figures refer to the proportion of base leisure tourists out of total leisure tourists to Hong Kong that would visit HKDL.
- (f) Figures refer to the proportion of induced tourists out of total leisure tourists to Hong Kong that would visit HKDL.
- (g) The extent of reduction in consumption spending on items not related to HKDL theme park, in terms of percentage of additional spending due to HKDL theme park.

(b) Economic costs

8. The economic costs include the land formation and infrastructure costs, and capital expenditure for the theme park. The land formation and infrastructure costs are estimated by the Civil Engineering and Development Department, and are adopted for all the three cases.

9. TWDC has produced two sets of projection for capital expenditure for the theme park, one corresponding to the “Base case” attendance projection and the other for the “Slower tourism case”, as the required timing and the level of new capital investment would naturally differ under different projections of visitors to HKDL². These two sets of projection have been respectively adopted in “Case 1A” and “Case 1B”. As the attendance projection in “Case 2” is closer to TWDC’s attendance projection in the “Slower tourism case”, the capital investment in “Case 2” is based on TWDC’s “Slower tourism case”.

10. Taking all the components together, the sum of capital cost amounts to HK\$25.7 billion at 2008 prices in present value terms for “Case 1A”, and HK\$24.8 billion for both “Case 1B” and “Case 2” (Enclosure I).

Assessment results

(a) “Case 1A”

11. According to TWDC’s projection, in “Case 1A” total attendance to HKDL is expected to rise to 10.7 million in FY 2021 and be bounded by the capacity constraint at 11 million from FY 2022 onwards.

12. Net of the economic costs involved, the present value of net economic benefits is estimated at around HK\$117 billion at 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$59 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 18.6% and 17.7% respectively for the two operation periods.

(b) “Case 1B”

13. According to TWDC’s projection, in “Case 1B”, total attendance to HKDL would rise to 9.2 million from FY 2026 onwards.

14. The present value of net economic benefits is estimated at around HK\$98 billion at 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$51 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 17.8% and 17.0% respectively for the two operation periods.

(c) “Case 2”

15. According to the Government’s projection, in “Case 2” total attendance to HKDL would increase to 7.3 million in FY 2025 and further to 10.1 million in FY 2039, and be capped by the capacity constraint of the theme park at 10.2 million for FY 2040 and onwards (Enclosure II).

² With different capital expenditure for the “Base case” and “Slower tourism case”, the resulting capacity constraints of the theme park under the two cases are also different.

16. The present value of net economic benefits is estimated at around HK\$65 billion in 2008 prices for a 40-year operation period (FY 2006 – FY 2045), and around HK\$24 billion for a 20-year operation period (FY 2006 – FY 2025). The corresponding average annual economic rates of return in real terms are estimated at 13.7% and 11.9% respectively for the two operation periods. The assessment results for all the three scenarios are summarized in **Table 2** below.

Table 2: Summary of assessment for the three cases

	Total gross economic benefits (HK\$2008 prices in present value)		Total net economic benefits (HK\$2008 prices in present value)		Economic rate of return in real terms		Benefit/cost ratio in present value terms		Year when attendance reaches capacity	Breakeven year@
	over operation period of		over operation period of		over operation period of		over operation period of			
	40 years	20 years	40 years	20 years	40 years	20 years	40 years	20 years		
Case 1A	143.0 bn	83.9 bn	117.3 bn	59.2 bn	18.6%	17.7%	5.6	3.4	FY 2022	FY 2011 (6 years)
Case 1B	123.2 bn	74.6 bn	98.4 bn	51.4 bn	17.8%	17.0%	5.0	3.2	–	FY 2011 (6 years)
Case 2	89.5 bn	47.1 bn	64.7 bn	23.9 bn	13.7%	11.9%	3.6	2.0	FY 2040	FY 2013 (8 years)

Note: (@): “Breakeven year” refers to the year taken from opening for economic payback (i.e. when the cumulated gross economic benefits just offset the cumulated total economic cost).

Employment creation

(a) Construction

17. According to TWDC, expansion of the HKDL involves capital expenditure of HK\$3.3 billion at 2008 prices during the construction period FY 2009 – FY 2014. TWDC estimates that employment generated from the above capital expenditure would be about 3 700 man-years, which include about 740 man-years for professional/technical labour and about 2 960 man-years for other labour.

(b) Operation

18. The additional spending in Hong Kong from both tourists and local residents visiting HKDL would also generate local employment. With reference to the structure of the Hong Kong economy and assuming that labour productivity remains unchanged, the number of jobs created from these additional spending during the operation stage has been estimated. Under “Case 1A”, the number of jobs (in terms of man-years) created in the economy would increase gradually from about 14 100 in FY 2009 to about 38 400 in FY 2022 and stay constant thereafter as attendance will have reached capacity. Under “Case 1B”, the number of jobs (in terms of man-years) created would increase to about 31 100 in FY 2025 and 31 500 in FY 2045 respectively (both in terms of man-years). The corresponding figures for “Case 2” would be 20 600 in FY 2025 and 31 300 in FY 2045 respectively (both in terms of man-years).

Conclusion

19. The economic assessment indicates that the HKDL project (Phase I) is likely to bring about considerable net benefits to the economy, mainly from additional tourist spending in Hong Kong, after netting out the economic costs of capital expenditure involved.

20. It should be noted that long-term economic assessment of this nature is inevitably subject to a range of uncertainties, as many parameters used in the assessment may turn out to be different from the assumptions. For example, the number of visitors to HKDL and the benefits thus generated depends a lot on how successful the HKDL could run the theme park, which is in fact difficult to predict from the macro perspective. To what extent future regional competition could impact on the number of visitors to HKDL is also highly uncertain at the present juncture. On the other hand, if the number of tourists turns out to be higher than projected, the actual theme park attendances and hence the additional economic benefits they entail could also be higher.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
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**Capital expenditure on land formation, infrastructure and superstructure, as well as facilities for the HKDL theme park (Phase I)
at 2008 prices and in present value terms**

FY	Land formation and infrastructure	Capital expenditure for the theme park[^]		Total economic costs⁺	
	<u>costs[@]</u> (HK\$ bn)	<u>Case 1A</u> (HK\$ bn)	<u>Case 1B and Case 2</u> (HK\$ bn)	<u>Case 1A</u> (HK\$ bn)	<u>Case 1B and Case 2</u> (HK\$ bn)
2000	0.74	0.02	0.02	0.77	0.77
2001	2.03	0.13	0.13	2.16	2.16
2002	2.43	0.61	0.61	3.05	3.05
2003	1.99	1.65	1.65	3.64	3.64
2004	1.56	2.91	2.91	4.47	4.47
2005	0.75	3.20	3.20	3.94	3.94
2006	0.28	0.48	0.48	0.75	0.75
2007	0.09	0.41	0.41	0.50	0.50
2008	0.03	0.15	0.15	0.18	0.18
2009	0.02	0.22	0.22	0.24	0.24
2010	0.01	0.48	0.48	0.49	0.49
2011	0.01	0.71	0.71	0.73	0.73
2012	-	0.54	0.54	0.54	0.54
2013	-	0.14	0.14	0.14	0.14
2014	-	0.04	0.04	0.04	0.04
2015	-	0.03	0.03	0.03	0.03
2025	-	0.18	0.11	0.18	0.11
2035	-	0.07	0.06	0.07	0.06
2045	<u>-</u>	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.04</u>
2000 – 2045	9.94	15.74	14.85	25.68	24.79

Notes (@): Based on figures from CEDD.

(^): Based on figures from TWDC.

(+): Sum of figures shown may not be the same as the total figures shown, due to rounding.

Attendance projections

	<u>Case 1A</u>	<u>Case 1B</u>	<u>Case 2</u>
	('000)	('000)	('000)
Total attendance			
FY 2015	8 356	7 924	5 211
FY 2025	11 000*	9 120	7 306
FY 2035	11 000*	9 194	9 708
FY 2045	11 000*	9 194	10 200*

Note (*) : Attendance is capped by the capacity constraint.