

**For discussion on
25 February 2013**

**Legislative Council Panel on Economic Development
Update on Hong Kong Disneyland**

Purpose

This paper updates Members on the operation of Hong Kong Disneyland (HKD) in 2011/2012.

Fiscal Year 2011-12 (FY12) Performance

Overview

2. As of the end of December 2012, HKD has received over 38 million visitors since its opening. In FY12¹, against the backdrop of a booming tourism market in Hong Kong and driven by vigorous sales and marketing strategies as well as successful special events and programmes, HKD's attendance surged to 6.7 million, a 13% rise over the previous year. The local, Mainland China and international attendance increased by 21%, 13% and 5% respectively. The guest mix in FY12 is 33% local, 45% Mainland China and 22% international. The two hotels at HKD recorded a combined occupancy rate of 92% in FY12, representing an increase of one percentage point from the previous year.

3. HKD's total revenue in FY12 was \$4,272 million, 18% or \$642 million higher than the previous year. The earnings before interest, taxes, depreciation and amortisation (EBITDA) was \$876 million, a substantial improvement from \$506 million in FY11. In FY12, the HKD achieved a net profit of \$109 million, the first ever since its opening in September 2005, representing an improvement of \$346 million against the net loss of \$237 million in FY11.

¹ According to the internal financial arrangement of HKD, the fiscal year ends on the Saturday closest to 30 September. FY12 covers the period from 2 October 2011 to 29 September 2012.

4. In FY12, HKD continued to drive regional sales and marketing promotions with the launch of two new themed areas, Toy Story Land and Grizzly Gulch. In addition to proactive sales initiatives activated during trade events with the Hong Kong Tourism Board (HKTB) and other major tourism organisations, HKD also made use of technology to engage and equip even more travel trade partners across the region with Disney knowledge via interactive and educational webinars. To successfully flatten out seasonal gaps, HKD launched cooperative marketing programmes in key source markets to drive both sales and brand awareness.

5. HKD continued to maintain very high service standards. According to its guest surveys, the majority of guests indicated that they intended to re-visit HKD in the future and would recommend the park to others. 93% of theme park visitors and 89% of hotel guests rated their overall experience as “good” or above.

6. The annual business review prepared by the Hong Kong Disneyland Management Limited for FY12 is at the **Annex**.

Special events and programmes

7. HKD continued to offer a variety of special theme-based events and programmes in FY12, including “Disney’s Haunted Halloween” that continued to provide new and thrilling entertainment elements to broaden guest appeal; “Toy to the World” Christmas event leveraging on the newly launched Toy Story Land during Christmas period in 2011. During the summer period in 2012 when the second new themed area, Grizzly Gulch, was open, HKD launched a wide variety of promotion programmes, including the “Grizzly Gulch Sneak Peek”. Other special events for Year of the Dragon Celebration and “Star Guest Program” continued to score high guest satisfaction ratings.

8. Through these special events and programmes, particularly those related to the new themed areas, HKD was able to offer broader market appeal and culturally diverse products, thus enhancing guest experience with new and refreshed content and driving attendance from first time and repeat visitors.

Marketing and Sales Promotion

9. It remains HKD's goal to drive attendance from all three key markets, i.e. local Hong Kong, Mainland China and international, which are important to sustainable business growth and market development.

10. The local market grew significantly in FY12. In addition to better engagement with major Hong Kong travel agencies to run seasonal promotions alongside the trade incentive programmes, HKD further developed local niche segments, including corporate group buyouts, the wedding business and youth programmes for educational institutes.

11. In Mainland China, HKD continued to strengthen its marketing and sales presence with 29 representatives anchored in the 4 major cities (Beijing, Shanghai, Guangzhou and Chengdu). Leveraging on strategic partnerships with local online travel platforms and transportation providers, HKD further widened its distribution network to capture the growing number of Mainland tourists travelling to Hong Kong under the Individual Visit Scheme. With the launch of the Mainland China Trade Support Center based in Guangzhou, a more strategic and cohesive communication link between HKD and travel agencies nationwide was established, enabling the latest information on HKD's products and promotions to be proactively delivered.

12. In the International regions, HKD continued to focus on the top nine markets in Asia Pacific and established new liaison offices in Indonesia and Korea. HKD engaged new business segments, including the Muslim market, with the introduction of the newly certified Halal meal services in the theme park, as well as deepening cooperation with regional airlines to bring more visitors.

13. HKD continued to partner with HKTB to attend major overseas trade functions including Hong Kong travel missions and trade briefings in South East Asia. HKD also partnered with HKTB to join major overseas trade shows, including the China International Travel Mart and Incentive Travel and Conventions, Meetings under the HKTB Pavilion to promote both Hong Kong and HKD. HKD hosted HKTB / Meetings and Exhibitions Hong Kong overseas familiarisation groups to equip both trade and corporate partners with information on HKD's latest products and offers.

Operating and Financial Performance

14. As mentioned in paragraph 2, HKD welcomed 6.7 million guests and generated revenues of \$4,272 million in FY12 with an EBITDA of \$876 million. This was mainly due to strong growth in attendance, hotel occupancy, per capita and per room guest spending, continued cost mitigation efforts and reduced net finance costs. Net finance costs decreased by 89% from \$44 million to \$5 million due to the conversion of part of the loan from Government to ordinary shares following the approval of the Finance Committee in July 2009 and the increase in interest capitalised for expansion projects. These resulted in a net profit of \$109 million for the first time since the park's opening in September 2005. With the conversion of part of the loan from Government to ordinary shares and the capital injection from The Walt Disney Company (TWDC), together with current year's net income, shareholders' equity increased from \$11,899 million to \$13,124 million as of the end of FY12.

15. HKD is a long-term asset that grows over time and TWDC continues its commitment to the long-term success of HKD. Over the past seven years, HKD has been investing in building brand awareness and image, and focusing on maintaining high quality services and guest satisfaction. Since its opening, HKD has won over 210 awards, of which 51 were awarded in FY12 from local and international industry associations and publications in recognition of its world-class assets, design and technical achievements, distinctive guest services, commitment to the community and appeal to families.

Economic Benefits

16. HKD has generated substantial economic benefits to Hong Kong since it commenced operation. According to survey statistics from HKTB and the operational data of HKD, the additional spending of all HKD visitors in Hong Kong (i.e. over and above what would have been spent assuming without HKD) rose by 12% over the previous year to \$12.9 billion² in FY12. Taking into account both the direct and indirect value-added generated from the additional spending, HKD brought about \$8 billion of value added to Hong Kong in FY12, equivalent to around 0.42% of Hong Kong's GDP, and created 24,500 jobs (in terms of man-year). Taking the first seven years of operation together, the total value added generated by HKD

² All value figures in paragraph 16 are at 2010 prices.

amounted to \$36.8 billion or 0.3% of Hong Kong's GDP. A total of 114,000 jobs (in terms of man-year) were also created over these years, providing considerable job opportunities especially for grassroot workers and the travel industry.

Expansion Plan

17. The current expansion of HKD is progressing well. After the opening of Toy Story Land and Grizzly Gulch in November 2011 and July 2012 respectively, Mystic Point will be open this year, marking the full completion of the expansion at this stage.

18. To further enhance its appeal to visitors and meet the demand for hotel rooms, HKD is considering the next phase of expansion within its existing site, including potential plans for new attractions and hotel development in the coming few years. HKD's intention is to ultimately provide new attractions at the park to lengthen the duration of stay of guests as well as to continue attracting young visitors. HKD is also studying the guest demand for hotel rooms to map out its future hotel development.

Staffing

19. During FY12, HKD's full-time workforce stood at more than 4,700, which has made HKD one of the biggest teams of entertainment and performance talents in Hong Kong. Another 2,200 part-time staff were engaged to manage the increased demand at Halloween, Christmas, Chinese New Year, summer holidays as well as other special occasions.

20. HKD maintains an explicit policy of providing equal opportunity for all employees and offers employment opportunities for persons with disabilities on equal and merit basis, having regard to the job nature and safety. Since opening, HKD had employed more than 350 staff members with disabilities. Efforts on this front will continue vigorously.

Corporate Social Responsibility

21. To reinforce HKD's linkage with the local community, HKD actively engaged in community activities mostly for children and families. Since its opening, HKD has collaborated with over 700 local charities and non-profit organisations in sponsoring free visits to the park and other activities. Two examples of such community relation programmes are –

- (a) “Give a Day. Get a Disney Day” Programme which generated over one million service hours over the past three years; and
- (b) Disney Children’s Fund, funded by TWDC, contributing to programmes benefiting children, seniors and families from underprivileged and local community groups. HKD also provided skills and service volunteering support to build the capacity of each project. As of December 2012, \$5 million has been awarded to support 37 projects.

22. HKD has continued to work on conserving resources and reducing its impact to the environment. It achieved double-digit reduction in electricity consumption compared to its first year of operation despite the increase in volume of business. On waste reduction, it has continued to implement a comprehensive recycling programme including recycling food wastes to compost and fish meal. HKD has diverted more than a thousand tons of food waste from landfill since opening and are in discussion with various non-governmental organisations to explore ways to further reduce food waste. In addition, HKD has continued to explore the local recycling opportunities and launched a few new recycling programmes in recent years, e.g. recycling of used soap bars and glass beverage bottles from its hotels. A new recycling programme was also put in place to recycle waste plastic bags generated from its daily operations into production of shopping bags for merchandise shops. This initiative has recycled more than 900,000 numbers of plastic bags in 2012.

23. To contribute to the grooming of local entertainment and performance talents, HKD placed more than 200 internships from local vocational institutions throughout the year to promote talent for the industry. HKD also launched “Disney ImagiNations Hong Kong Design Competition”, a theme park attraction and experience design contest to identify and select the best creative team from design engineering and architecture disciplines across the various education institutions for international learning opportunities, including a study trip to the Walt Disney Imagineering headquarters in the United States, followed by a six-week work experience with creative teams at HKD.

Way Forward

24. HKD will continue to grow through the launch of new attractions and other unique guest experiences. It will stay focused on building the resort to be the premier vacation and entertainment resort destination in the region. HKD will also continue to provide world-class attractions and entertainment and immersive experiences, demonstrate excellence in generating fresh content to attract more guests, and offer exceptional guest service. HKD aspires to evolve into a “must see” resort-wide entertainment destination providing a broad appeal to a wider audience as well as richer and deeper experiences for all guest segments.

Advice Sought

25. Members are invited to note the update on HKD’s operation.

Tourism Commission
Commerce and Economic Development Bureau
February 2013

**HONG KONG DISNEYLAND
ANNUAL BUSINESS REVIEW
FOR THE FISCAL YEAR 2012**

KEY HIGHLIGHTS

- Hong Kong Disneyland (“HKDL”) once again delivered record attendance, occupancy and guest spending in fiscal 2012¹
- The resort generated record revenues of HK\$4,272 million, up 18% from prior year, and a net profit of HK\$109 million, the first annual profit since the resort’s opening
- The successful opening of Toy Story Land on 18th November 2011 and Grizzly Gulch on 14th July 2012 illustrates HKDL’s continued focus on growing its business and establishing its brand as the premier vacation, entertainment and convention resort destination in the region
- Another one-of-a-kind new themed area, Mystic Point, is expected to debut in mid-2013. The opening of the three new themed areas will mark the completion of the current theme park expansion plan, increasing the park’s total size by about one-fourth and bringing the total number of attractions and entertainment offerings to more than 100

BUSINESS OVERVIEW

HKDL develops and operates the Disney-branded theme park, themed hotels and associated complex and infrastructure on Lantau Island in Hong Kong. HKDL is owned by Hongkong International Theme Parks Limited (“HKITP”), a joint venture between the Government of the Hong Kong Special Administrative Region (“HKSAR”) and The Walt Disney Company (“TWDC”), and is managed by Hong Kong Disneyland Management Limited, a wholly owned indirect subsidiary of TWDC. As of the end of fiscal 2012, HKSAR owns a 52% majority interest in HKITP, with TWDC owning the remaining 48%.

The theme park consists of the following themed lands and areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Tomorrowland and Toy Story Land. These areas feature themed attractions, entertainment and interactive experiences, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and a nighttime fireworks extravaganza.

HKDL has two themed hotels: the 400-room Hong Kong Disneyland Hotel and the 600-room Disney’s Hollywood Hotel.

OPERATIONAL HIGHLIGHTS

- Having completed its seventh full year of operations since its grand opening in 2005, HKDL remains focused on being the premier vacation, entertainment and convention resort destination in Hong Kong. As one of the most popular paid destinations in Hong Kong, HKDL is an integral component in supporting Hong Kong’s position as one of the world’s top cities for leisure tourists and business visitors.
- With the Toy Story Land launch in November 2011 and the premiere of Grizzly Gulch in July 2012, the resort continues to refresh and expand upon its offerings in order to attract new guests – including young adults and parents – and generate even greater repeat visitation. Notably, these new areas contributed to a more than 40% increase in the number of Magic Access (an annual membership programme) members in fiscal 2012.

¹ The fiscal year is from October to September and ends on the Saturday closest to 30th September of each year.

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- The opening of Toy Story Land and Grizzly Gulch increased the staffing at HKDL by 180 full-time and 150 part-time positions. The resort also offered various educational campaigns and training sessions to the rest of the staff to enhance their product knowledge of the new themed areas. In total, more than 9,300 hours of training were provided to the entire HKDL staff.
- HKDL also generated excitement and ongoing visitation interest among guests from local, mainland China and Southeast Asia regions by launching the following key events and programmes throughout the fiscal year:
 - held an expanded version of the annual “Disney’s Haunted Halloween” event at the beginning of fiscal 2012, which featured limited-time offerings in each themed land including a new haunted walk-through experience in Adventureland called “Revenge of the Headless Horseman”;
 - celebrated the December holiday season with the “Toy to the World” Christmas event, introducing the new “Santa Mickey’s Toy-riffic Street Party” intended to sustain the momentum from the newly launched Toy Story Land;
 - offered the “Year of the Dragon Chinese New Year Celebration” in January 2012, integrating both traditional Chinese and Disney entertainment elements, a yearly strategy which continued in driving HKDL’s penetration among Guangdong arrivals during the event period; and
 - continued the successful “Star Guest Program” which offered guests a variety of “Magical Moments” and “Star Experiences”, including a brand new “Star Princess Tour”, throughout the spring season.
- In addition to its strategy to grow the business, HKDL remains committed to contributing to Hong Kong and the communities it serves, with a focus on outreach programmes including those related to underprivileged families, environmental awareness and volunteerism. HKDL’s deep involvement in community work has become an integral part of Hong Kong’s overall corporate social responsibility landscape. Key accomplishments during fiscal 2012 include:
 - placed more than 200 internships from local higher educational institutions, including universities, community colleges and the Hong Kong Institute of Vocational Education, throughout the year to promote talent for the industry;
 - continued to inspire volunteerism within the community through the “Give a Day. Get a Disney Day” programme, which generated over one million service hours over the past three years and included an alliance with six corporate partners in 2012;
 - partnered with scholarship recipients at tertiary institutions to take part in community service projects;
 - provided grants from the Disney Children’s Fund directly to the Hospital Play Service run by Playright Children’s Play Association, a local non-profit organisation;
 - continued the education and awareness for green initiatives and creativity through the “Friends for Change” programme in local schools; and
 - arranged for the championship team of the 2011 “Disney ImagiNations Hong Kong Design Competition” to participate in the theme park attraction and design contest at Walt Disney Imagineering headquarters in the United States, followed by a six-week work experience with creative teams at HKDL.

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- On average, HKDL employed more than 4,600 full-time and 2,200 part-time staff during this fiscal year, making the resort one of Hong Kong's largest employers in the entertainment industry. HKDL is committed to developing a highly skilled and quality workforce, providing more than 400,000 hours of professional and technical training during the year.
- In fiscal 2012, 93% of theme park guests and 89% of hotel guests reported that their overall experience was "excellent", "very good" or "good".
- Since opening, HKDL has received 210 awards in recognition of its design, technical achievements, distinctive guest service, commitment to the community and environment, and appeal to families. HKDL received a total of 51 awards in fiscal 2012, including for the second year running Asia's Best Brand Award for Excellence in Branding & Marketing presented by the Chief Marketing Officer Council, and the outstanding partnership award by the Hong Kong Council of Social Services for an "Apprenticeship for People with Disabilities" programme.

THEME PARK EXPANSION

Construction continues on the expansion of HKDL, which will ultimately add three new themed areas and increase the total size of the theme park by about one-fourth. Toy Story Land officially launched on 18th November 2011, Grizzly Gulch came online on 14th July 2012 and Mystic Point is anticipated to debut in mid-2013. The addition of these one-of-a-kind experiences not only contributes further to the significant appeal of HKDL as a tourist destination, but also brings direct economic benefits to Hong Kong by providing additional resort-based employment positions plus a substantial number of construction and other jobs related to the build-out of the park.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 29th September 2012, HKDL achieved record attendance, occupancy and per capita and per room guest spending. With considerable growth in all guest origins including local, mainland China and international markets, attendance reached 6.7 million, representing a 13% increase over prior year. This year-over-year increase in park visitation exceeded the level of growth in overnight leisure arrivals into Hong Kong during this period and reflected the resort's effective marketing and sales programmes and other factors. Occupancy remained strong at 92%, one percentage point above prior year. Higher volumes, combined with increased guest spending and effective cost management, contributed to revenue growing by 18% to HK\$4,272 million and to HKDL's first ever net profit of HK\$109 million, an improvement of HK\$346 million from prior year.

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Key revenue drivers for the fiscal year were as follows:

Key revenue drivers	2012	2011
Park attendance (in millions)	6.7	5.9
Hotel occupancy (percentage)	92%	91%
Year-on-year change for key revenue drivers	Percentage change	
	2012	2011
Park attendance	13%	13%
Per capita guest spending	6%	6%
Available room nights	(1%)	-
Per room guest spending	15%	10%
Origin of visitors as a percentage of total attendance	2012	2011
Local	33%	31%
Mainland China	45%	45%
International	22%	24%

Key financial results for the fiscal year were as follows:

	2012	2011	Variance
(in HK\$ millions)			
Revenues	4,272	3,630	642
Costs and expenses	3,396	3,124	272
Earnings before interest, taxes, depreciation and amortisation	876	506	370
Depreciation and amortisation	762	699	63
Net finance costs	5	44	(39)
NET PROFIT / (LOSS)	109	(237)	346
Non-current assets	15,375	14,878	497
Current assets	1,153	1,110	43
Current liabilities	(1,307)	(1,517)	210
Non-current liabilities	(2,097)	(2,572)	475
SHAREHOLDERS' EQUITY	13,124	11,899	1,225

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Revenues

HKDL generates revenues predominantly from the sale of admissions to the theme park, merchandise, food and beverage sales at the theme park and hotels, and room nights at the hotels. For fiscal 2012, total revenues increased by 18%, or HK\$642 million, to HK\$4,272 million, primarily driven by increased park attendance and by higher theme park per capita and hotel per room guest spending.

Costs and expenses

Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The increase of 9%, or HK\$272 million, to HK\$3,396 million for fiscal 2012 was attributable to higher volume-related operating and support costs, partially offset by savings from cost mitigation efforts.

Depreciation and amortisation

Depreciation and amortisation increased by 9%, or HK\$63 million, to HK\$762 million mainly due to the addition of property, plant and equipment related to the newly launched themed areas during fiscal 2012.

Net finance costs

Net finance costs consist of interest expense, net of interest income. The decrease of 89%, or HK\$39 million, from fiscal 2011 to HK\$5 million in fiscal 2012, reflected the conversion of a portion of the HKSAR-provided loan into equity during fiscal 2012, and an increase in interest capitalised for expansion projects.

Net Profit / (Loss)

Net profit for the year was HK\$109 million, against a net loss of HK\$237 million in fiscal year 2011. This was largely attributable to revenue growth, cost management efforts and reduced net finance costs.

Non-current assets

Non-current assets include property, plant and equipment, leasehold land and projects in progress. Non-current assets increased by 3%, or HK\$497 million, to HK\$15,375 million due to the development of expansion projects and addition of operational assets, partially offset by the depreciation and amortisation charges during the year.

Current assets

Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The increase of 4%, or HK\$43 million, from fiscal 2011 to HK\$1,153 million in fiscal 2012 was mainly attributable to a net increase in cash during the year. (See FINANCIAL LIQUIDITY section for more details)

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Current liabilities

Current liabilities consist of trade and other payables and deferred revenues. The decrease in current liabilities of 14%, or HK\$210 million, to HK\$1,307 million was primarily due to decreased payables in relation to completing part of the expansion projects.

Non-current liabilities

Non-current liabilities primarily represent the unsecured long-term loan from HKSAR which is scheduled to mature on dates through 2030. The decrease of 18%, or HK\$475 million, to HK\$2,097 million was primarily attributable to the conversion of a portion of this loan into ordinary shares, partially offset by deferred interest expense during the year.

FINANCIAL LIQUIDITY

Summary of the changes in cash and cash equivalents was as follows:

(in HK\$ millions)	2012	2011	Variance
Cash provided / (used) by:			
Operating activities	771	484	287
Investing activities	(1,302)	(1,444)	142
Financing activities	565	1,193	(628)
NET INCREASE			
IN CASH AND CASH EQUIVALENTS	34	233	

Cash and cash equivalents increased by 4%, or HK\$34 million, to HK\$941 million at the end of fiscal 2012. The increase was primarily attributable to net cash generated from operating activities and capital injection of HK\$565 million from TWDC to fund the expansion. TWDC received ordinary shares of HKITP in exchange for its capital contribution, and an equivalent amount of the HKSAR-provided loan was converted into ordinary shares. This increase in net cash was largely offset by cash used in investing activities, including expansion and other capital spending, in fiscal 2012.

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DISCLAIMER

This Annual Business Review has been prepared for information purposes only. The information set forth in this Annual Business Review presents a summary of certain operational and financial information relating to HKDL and does not represent the complete financial results of HKDL reflected in the audited financial statements of HKDL.