

**For discussion on
16 February 2015**

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

Purpose

This paper updates Members on the operation of Hong Kong Disneyland (“HKDL”) in Fiscal Year 2014 (“FY14”)¹.

FY14 Performance

2. The performance of HKDL continued to improve in FY14, with record attendance, revenue, earnings before interest, taxes, depreciation and amortisation (“EBITDA”) and net profit since the opening of the resort.

3. HKDL received 7.5 million visitors in the year, and the cumulative attendance since its opening in 2005 has exceeded 50 million visitors as at end FY14. Local, Mainland and international visitors respectively accounted for 32%, 48% and 20% of total attendance for the year. The combined occupancy rate of the two existing hotels at HKDL was 93%² in FY14.

4. HKDL’s total revenue in FY14 was \$5,466 million, \$570 million higher than that of previous year, representing a year-on-year increase of 12%. EBITDA was \$1,251 million, \$136 million higher than that of previous year, representing a year-on-year increase of 12%.

5. In FY14, HKDL recorded a net profit of \$332 million, 36% higher than the \$244 million net profit in the previous year, marking its

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

² Hotel occupancy rate in FY14 was one percentage point lower than the previous year mainly due to temporary reduction in hotel inventory caused by room renovations at Hong Kong Disneyland Hotel during the year.

third consecutive profitable year. The continuous improvement in HKDL's performance in the recent years was mainly driven by increase in attendance, per capita visitor spending and per room guest spending.

6. HKDL continued to offer a series of distinctive events and programmes, including festive events during Halloween, Christmas and Chinese New Year, and so on. HKDL was able to offer broader market appeal and culturally diverse products through these special events and programmes, thus enhancing guest experience and driving attendance as well as guest spending.

7. HKDL continued to carry out marketing and sales promotion in all three key markets (i.e. local, Mainland and international markets) through various channels, so as to maintain sustained growth in attendance as well as operating performance.

8. HKDL has always endeavoured to maintain high quality services. According to its guest surveys, 92% of theme park visitors and 91% of hotel guests rated their overall experience as "excellent", "very good" or "good". HKDL received 99 awards from local and international associations and publications in FY14, bringing the total number of awards received to 370 since its opening.

9. HKDL was one of the largest employers of entertainment and performance talents, employing more than 5 100 full-time staff members in FY14. HKDL also hired 2 700 part-time staff in the year to handle the additional demand arising from Halloween, Christmas, Chinese New Year, summer holidays and other special events.

10. The annual business review prepared by the Hong Kong Disneyland Management Limited for FY14 is at **Annex**.

Economic Benefits

11. As a major family travel destination, HKDL continued to generate substantial economic benefits to Hong Kong. According to survey statistics from the Hong Kong Tourism Board and the operational data of HKDL, the additional spending of all HKDL visitors in Hong Kong (i.e. over and above what would have been spent assuming without HKDL) increased

by 21% over the previous year to \$26.0 billion³ in FY14. Taking into account both the direct and indirect value-added generated from the additional spending, HKDL brought about \$13.2 billion of value-added to Hong Kong in FY14, equivalent to around 0.62% of Hong Kong's GDP, and created 30 600 jobs (in terms of man-years). Taking the first nine years of operation together, the total value-added generated by HKDL amounted to \$65.1 billion, equivalent to 0.37% of Hong Kong's GDP. A total of 177 300 jobs (in terms of man-years) were also created over these years, providing considerable job opportunities for frontline workers and the travel industry.

Corporate Social Responsibility

12. In FY14, HKDL participated in numerous community programmes including sponsoring more than 100 000 underprivileged community members to visit the theme park, and contributing close to 8 500 hours of volunteer services through the Disney VoluntEARS programme.

13. HKDL employed more than 100 individuals with disabilities in FY14, and continued to offer apprenticeship programme for the disabled. HKDL also participated in the Government's Talent-Wise Employment Charter with a view to promoting an inclusive and disabled-friendly workplace. HKDL will continue its efforts on this front.

Future developments

14. In view of the intensifying competition in the region, HKDL already has a series of developments in the pipeline, including new attractions, entertainment offerings and hotel services for visitors, in order to maintain its competitiveness.

15. HKDL launched in October last year the night parade "Disney Paint the Night", which was very well received by the visitors. HKDL will continue to introduce a series of new initiatives, including the 10th Anniversary Celebration in this year, a new themed area based on Marvel's Iron Man franchise by the end of 2016, and a new 750-room hotel with a theme dedicated to the spirit of exploration in early 2017. The Government has also commenced discussion with The Walt Disney Company on the Phase 2 development of the Hong Kong Disneyland Resort.

³ All value figures in this paragraph are at 2012 prices.

Advice Sought

16. Members are invited to note the update on HKDL's operation.

Tourism Commission
Commerce and Economic Development Bureau
February 2015

KEY HIGHLIGHTS

- Hong Kong Disneyland's ("HKDL") attendance and guest spending for fiscal 2014¹ were the highest in the resort's history, marking its fifth consecutive year of record performance.
- During the year, the resort reached a significant milestone when it welcomed its 50 millionth guest since its grand opening in 2005.
- The resort generated record revenues of HK\$5,466 million, up 12% from prior year, and record net profit of HK\$332 million, up 36% from prior year.
- HKDL remains focused on growing its business and establishing its brand as the premier vacation, entertainment and convention destination in the region. The resort continues to plan and roll out new entertainment offerings and attractions following the successful completion of the expansion of three themed areas with the opening of Mystic Point in May 2013. In October 2014, HKDL launched "Disney Paint the Night", the first ever fully LED nighttime spectacular. Other offerings to be rolled out include the upcoming 10th anniversary of HKDL in late 2015, a new themed area based on Marvel's Iron Man franchise that is currently under construction and is targeted to launch in late 2016, and a new 750-room resort-style hotel that is also under construction and targeted to open by early 2017.

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 ("HKSARG") and The Walt Disney Company ("TWDC"), and is managed by Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. As of the end of fiscal 2014, HKSARG owns a 52% majority interest in HKITP, with TWDC owning the remaining 48%.

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 theme park consists of the following themed lands and areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, 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

- HKDL continued to grow since its grand opening in 2005, reinforcing its position as a premier vacation, entertainment and convention destination in Hong Kong. As one of the most popular destinations in the city, HKDL is an integral component of Hong Kong's position as one of the world's top cities for tourists and business visitors.
- For the 2014 Hong Kong Management Association Quality Awards, HKDL received the prestigious Gold Award for its leadership and accomplishments in all facets of the business, including strategic planning, sales and marketing, operational excellence, workplace and workforce development and community outreach programmes.
- HKDL generated excitement and ongoing visitation interest among guests from Hong Kong, mainland China and Southeast Asia by offering the following key events and programmes throughout the fiscal year:
 - *"Disney's Haunted Halloween"*. The resort's annual Halloween event was held at the beginning of fiscal 2014 with expanded, limited-time offers in each land and area. Promotion for the event included a viral video campaign that extended the celebration beyond the park to young adults in the city. The interactive marketing strategies were recognised by the business community, earning HKDL seven industry awards.
 - *"Disney's Sparkling Christmas"*. The park's seasonal celebration extended to the local community via larger-than-life Disney-themed ornamental globes displayed at the Harbour City shopping mall. The mall also launched an online campaign that used specially designed Mickey head-

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shaped balloons to promote happiness. For every 100 balloons inflated, a child from a beneficiary charity was invited to visit the park for free.

- *“The Happiest Chinese New Year Celebration”*. To commemorate the Year of the Horse in January 2014, the resort integrated both traditional Chinese elements and signature Disney entertainment. This yearly strategy continued to drive HKDL’s reach among Guangdong arrivals during the event period.
- *“Star Guest Program”*. Throughout the spring season, this program offered guests a variety of “Magical Moments” and “Star Experiences”, including the popular “Star Princess Tour” and brand new “Dusty’s Sky School” based on Disney’s Planes franchise.
- In addition to its business growth strategy, the resort remains committed to Hong Kong and the communities HKDL serves. This past year, HKDL welcomed more than 100,000 underprivileged community members to visit the park, contributed close to 8,500 hours of skills and services through its Disney VoluntEARS programme, and collaborated with the Agency of Volunteers Services to offer 480,000 hours of volunteer service in the community through “Give a Day. Get a Disney Day.” Other community highlights from fiscal 2014 include:
 - *Promoting the wise use of surplus food*. Launched a partnership with local charity Foodlink for surplus food donations. HKDL collected surplus food from its two hotels and restaurants and chefs volunteered their time to turn these ingredients into dishes for needy families. Since its inception in December 2013, more than 18,000 meals have been donated.
 - *Encouraging creativity and family-bonding through play*. Held the fourth Disney ImagiNations Hong Kong competition, a theme park design challenge that nurtures design, engineering and architecture talents. The resort also partnered with local non-profit Playright Children’s Play Association to train more than 120 VoluntEARS for hospital visits to help children and their families better manage illness. Likewise, 12,000 parents and children enjoyed the second Community Built Playground, which was expanded to cover two locations at Inspiration Lake on Lantau Island and in Victoria Park.

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- *Fostering diversity and inclusion.* Worked with a non-government organisation's vocational training centre to jointly develop a hotel housekeeping training programme for their students. HKDL provided hotel amenities and funding to design a mock-up guest room for training. HKDL continues to offer an apprenticeship programme for structured classroom and on-the-job training for those with disabilities. The programme was developed in 2007 in partnership with the Labour Department, Social Welfare Department, Hong Kong Council of Social Service and 22 non-government organisations, and employed more than 100 individuals with disabilities during the fiscal year. HKDL also participated in the Government's Talent-Wise Employment Scheme, which champions an inclusive, disabled-friendly workplace.

- *Developing local students.* To sponsor local students and develop talent for the tourism industry, HKDL awarded more than 300 scholarships and offered 340 internships to students from local higher-education institutions, including universities and the Hong Kong Institute of Vocational Education. HKDL also offered the "I Did It!" award, which recognises one student from every primary school class who made the most improvement over the year. And together with the Hong Kong Federation of Youth Groups, the Disney Friends for Change Youth Grants gave grants to 50 proposals, which provided youth aged 12-25 the opportunity to make a positive change in society using funding of up to HK\$8,000.

- *Connecting kids to nature.* Expanded the "Adopt A Garden" programme to a school in Tai O to share gardening skills with parents and teachers. The expanded version joins the organic gardening programmes in two special schools, one village school and a school serving ethnic minority students. "Adopt A Garden" also appeared for the first time at Tuen Mun and Castle Peak Hospitals. These gardens foster family bonding and recovery through the art of horticulture.

- On average, HKDL employed more than 5,100 full-time and 2,700 part-time staff during fiscal 2014, making the resort one of Hong Kong's largest employers in the entertainment industry. HKDL is committed to developing a highly skilled and quality labour force, providing more than 390,000 hours of professional and technical training to the workforce during the year.

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- HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2014, 92% of theme park guests and 91% of hotel guests reported that their overall experience was “excellent”, “very good” or “good”.
- Since opening, HKDL has received 370 awards in recognition of its design, technical achievements, distinctive guest service, commitment to the community and environment, and family appeal. HKDL received a total of 99 awards in fiscal 2014, including the previously mentioned Gold Award of the 2014 Hong Kong Management Association Quality Awards, as well as the Best Theme Attraction at the 25th Annual TTG Asia Travel Awards, the Thea Award for Outstanding Achievement Attraction (Mystic Manor) from the Themed Entertainment Association, Culinary World Master at the international Salon Culinaire Mondial competition in Switzerland, Asia’s Best Employer Brand Award presented by the Employer Branding Institute, the Randstad Award for Best Workplace Culture in Hong Kong and the Outstanding Inclusive Organisation Award from the Labour and Welfare Bureau.

THEME PARK AND HOTEL EXPANSION

In October 2013, HKDL announced its plan to open a new themed area at the park based on Marvel’s Iron Man franchise in late 2016. The key attraction, Iron Man Experience, will take guests on an adventure of a lifetime as they join Tony Stark in a battle against alien invaders across the city of Hong Kong.

Disney Explorers Lodge, a new 750-room hotel dedicated to the spirit of exploration is under construction. The new hotel is slated to open by early 2017 and will offer an immersive resort-style accommodation experience for guests.

These experiences will not only further contribute to the significant appeal of HKDL as a tourist destination, but also will add to the economic benefits HKDL brings to Hong Kong. The expansions generate many jobs in construction and across the operation of the resort. The new hotel will create 600 to 700 full-time equivalent positions after it commences operation.

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KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 27th September 2014, HKDL achieved record attendance and per capita and per room guest spending. With growth in guest origins from mainland China and international markets, attendance reached 7.5 million, representing a 1% increase over prior year. Hotel occupancy remained strong at 93%, one percentage point below prior year due to a temporary reduction in hotel inventory related to room renovations at Hong Kong Disneyland Hotel. Higher guest spending, coupled with strong volumes, contributed to revenue growth of 12% to HK\$5,466 million and to HKDL's record net profit of HK\$332 million, representing a 36% increase from prior year.

Key revenue drivers for the fiscal year were as follows:

Key revenue drivers	2014	2013
Park attendance (in millions)	7.5	7.4
Hotel occupancy (percentage)	93%	94%

Year-on-year change for key revenue drivers	Percentage change	
	2014	2013
Park attendance	1%	10%
Per capita guest spending	11%	6%
Available room nights	(2%)	1%
Per room guest spending	11%	10%

Origin of visitors as a percentage of total attendance	2014	2013
	Local	32%
Mainland China	48%	47%
International	20%	20%

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Key financial results for the fiscal year were as follows:

	2014	2013 <i>(Restated²)</i>	Variance
(in HK\$ millions)			
Revenues	5,466	4,896	570
Costs and expenses	4,215	3,781	434
Earnings before interest, taxes, depreciation and amortisation	1,251	1,115	136
Depreciation and amortisation	888	838	50
Net finance costs	31	33	(2)
NET PROFIT	332	244	88
Non-current assets	15,666	15,340	326
Current assets	1,814	1,578	236
Current liabilities	(1,705)	(1,478)	(227)
Non-current liabilities	(2,115)	(2,096)	(19)
SHAREHOLDERS' EQUITY	13,660	13,344	316

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 charges for room nights at the hotels. For fiscal 2014, total revenues increased by 12%, or HK\$570 million, to HK\$5,466 million, primarily driven by higher 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 11%, or HK\$434 million, to HK\$4,215 million for fiscal 2014 was attributable to higher operating and support costs in part due to a full year of costs for Mystic Point which opened on 17th May 2013.

² In fiscal 2014, HKDL adopted the amendments to Hong Kong Accounting Standards 19 "Employee Benefits" effective 1st January 2013. The adoption of the amendments represents a change in HKDL accounting policy, which is accounted for retrospectively. As a result, EBITDA and net profit for fiscal 2013 increased by HK\$2 million and shareholders' equity at fiscal year ended 2013 was reduced by HK\$34 million.

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Depreciation and amortisation

Depreciation and amortisation increased by 6%, or HK\$50 million, to HK\$888 million mainly due to a full year of depreciation of Mystic Point.

Net finance costs

Net finance costs consist of interest expense, net of interest income. Net finance costs decreased to HK\$31 million in fiscal 2014 from HK\$33 million in fiscal 2013.

Net Profit

Net profit for the year increased HK\$88 million to HK\$332 million. This was largely attributable to revenue growth, partially offset by higher operating and support costs.

Non-current assets

Non-current assets include property, plant and equipment, leasehold land and projects in progress. Non-current assets increased by 2%, or HK\$326 million, to HK\$15,666 million due to expansion spending, 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 15%, or HK\$236 million, from fiscal 2013 to HK\$1,814 million in fiscal 2014 was mainly attributable to a net increase in cash during the year. (See FINANCIAL LIQUIDITY section for more details)

Current liabilities

Current liabilities consist of trade and other payables and deferred revenues. The increase in current liabilities of 15%, or HK\$227 million, to HK\$1,705 million was primarily due to increased payables for capital project spending mainly related to Iron Man Experience and the third hotel, as well as higher operational spending in line with the growth of the business.

Non-current liabilities

Non-current liabilities include long-term borrowings and retirement plan liabilities. The balance primarily represents the unsecured long-term loan from HKSARG, which is scheduled to mature in installments on dates through 2022. The increase of 1%, or HK\$19 million, to HK\$2,115 million was primarily attributable to a decrease in the discount rate for fiscal 2014 for the retirement plan.

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FINANCIAL LIQUIDITY

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

	2014	2013	Variance
(in HK\$ millions)			
Cash provided / (used) by:			
Operating activities	1,328	1,222	106
Investing activities	(1,127)	(880)	(247)
Financing activities	-	-	-
NET INCREASE			
IN CASH AND CASH EQUIVALENTS	201	342	

Cash and cash equivalents increased by 16%, or HK\$201 million, to HK\$1,484 million at the end of fiscal 2014. The increase was primarily attributable to net cash generated from operating activities driven by revenue growth. This increase in net cash was partially offset by cash used in investing activities in fiscal 2014 driven by resort expansion.

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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.