LCQ1: Expansion and development plan for Hong Kong Disneyland Resort
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Following is a question by the Hon Wu Chi-wai and a reply by the Secretary for Commerce and Economic Development, Mr Gregory So, in the Legislative Council today (December 14):

Question:

The Government announced last month that it had reached an in-principle agreement with The Walt Disney Company (TWDC) in respect of an expansion and development plan (the expansion project) for the Hong Kong Disneyland Resort (the Resort). The expansion project will cost $10.9 billion, to be shared between the two shareholders according to the current shareholding ratio, i.e. $5.8 billion and $5.1 billion to be injected by the Government and TWDC respectively. The Government has indicated that as both sides are of the view that they should limit the near and medium-term debt repayment burdens of the Resort, they have not opted for the option of raising debt to finance the project. In this connection, will the Government inform this Council:

(1) whether it has conducted detailed financial analyses in respect of various options for financing the expansion project (including equity injection, the Resort taking out loans in the market under the condition of the Government providing a guarantee for subordinated loans or commercial loans, and a hybrid option with equity injection and debt financing in various ratios); if so, how such financing options compare with one another in terms of aspects such as total cost, rate of return, risks and risk sensitivity; if not, of the reasons for that;

(2) whether it has conducted analyses on the estimated cash flows of the Resort under various financing options in the coming decade; if so, of the details; if not, the reasons for that; and

(3) as the Government indicated in reply to a question raised by a Member of this Council in November 2005 that "the Government may consider in the light of the 'Big Market, Small Government' principle to divest its shareholdings in [the Resort] at an appropriate time when it is in the overall economic interests of Hong Kong to do so", whether such principle and considerations are still applicable at present; if so, whether the Government will conduct studies on the reduction of its shareholdings in the

Resort, including setting out what constitutes an appropriate time for divesting its shareholdings (e.g. when the attendance and revenue of the Resort have reached certain specified targets); if so, of the details; if not, the reasons for that; of the arrangements and restrictions, under the current agreement between the Government and TWDC, for the Government's divestment of its shareholdings to a third party, and whether it will negotiate with TWDC on a set of criteria in this respect?

Reply:

President,

The Hong Kong Disneyland Resort (HKDL) has been in operation for over 10 years since its opening in 2005. It is a major component of the tourism infrastructure in Hong Kong and one of the most popular tourist attractions for both local and overseas visitors. It also helps consolidate our position as an international premier tourist destination. Our on-going analysis of the Hong Kong Tourism Board's survey with inbound visitors revealed that around 50 per cent of HKDL's visitors cited visiting HKDL as their main purpose of coming to Hong Kong. This demonstrates the attractiveness and strength of HKDL. In its first 10 years of operation, HKDL has received over 58 million guests. Their additional spending in Hong Kong was around $136 billion, which generated $74.9 billion of total value-added for Hong Kong's economy, equivalent to 0.38 per cent of Hong Kong's Gross Domestic Product. HKDL has also created a total of 195 700 jobs for Hong Kong's economy over the same period, providing considerable job opportunities to the general public.

The Government is committed to pursuing a balanced, healthy and long-term development of our tourism industry. We have also stated that Hong Kong should not merely focus on the growth in tourist number but should also move towards diversified and high value-added services. With the solid foundation of HKDL, we consider that it is the right opportunity to roll out a series of new attractions in the next few years so as to enable HKDL to continue to play to its strength in attracting high value-added visitors from all over the world to Hong Kong and fostering tourism development amidst intensifying competition in the region.

Under the expansion and development plan of HKDL announced last month, new attraction(s) will be launched almost every year from 2018 to 2023, including new themed areas featuring Disney's popular properties, namely "Frozen" and "Marvel Super Heroes". Apart from enhancing HKDL's attractiveness and competitiveness, the plan is also an integral part of our tourism development strategy which aims to attract more high spending overnight visitors from different source markets to Hong Kong, and thereby benefiting the tourism-related industries and creating job opportunities. We expect that the expansion and development plan would generate additional net economic benefits of $38.5 billion to $41.6 billion over a 40-year operation period. The plan is also expected to create around 3 500 jobs during the construction stage and another 600 jobs at HKDL upon completion. Moreover, the additional visitors and their spending arising from the expansion and development plan would bring about 5 000 jobs to Hong Kong's economy, which would progressively increase to around 8 000 jobs.

My reply to the three parts of the question is as follows:

(1) and (2) In order to enable the launch of the entertainment offerings and attractions under the expansion and development plan as soon as possible and to add impetus to Hong Kong's tourism development in a timely manner, and given the relatively large scale of the plan, both shareholders of the Hongkong International Theme Parks Limited (HKITP) consider it appropriate to share the project cost of $10.9 billion according to the existing shareholding ratio, i.e. 53 per cent by the Government and 47 per cent by The Walt Disney Company (TWDC), as equity injection.

We have considered the option of raising debt to fund the expansion and development plan. However, it is the common vision of both shareholders to reduce debt and interest expenses of HKITP, and we have indeed, since 2009, deleveraged HKITP considerably. Therefore, we consider that funding the expansion and development plan through equity injection will be more conducive to the long-term financial performance of HKITP. In fact, the liability of HKITP will reach up to $2.3 billion in the current fiscal year. According to our assessment, HKITP can at most secure loan amount of about $4 billion without any guarantee under the current circumstances, and would not be able to borrow the entire sum of $10.9 billion in the market. Even if HKITP could secure a loan of $10.9 billion, the additional interest expenses arising from such loan for the expansion and development plan would be up to $300 million per annum as calculated based on the interest rate of shareholders' loans for HKDL's third hotel development (i.e. around 2.6 per cent per annum). Such interest expenses would become HKITP's burden over a long period of time and impose considerable pressure on its financial performance.

The progressive launch of new offerings under the expansion and development plan from 2018 onwards will help HKDL give full play to its international features and further open up the local, Southeast Asia and Mainland markets, and thereby stimulating visitation and consumption desire as well as lengthening visitors' stay in HKDL. We expect that the annual attendance of HKDL in 2025 will reach 9 million to 9.3 million. Based on the present value of the additional cash flow (i.e. discounting the inflation factor) generated from the projected attendance under the expansion and development plan, we estimate that the plan will have a financial internal rate of return of over 5 per cent in real terms, which is a financially viable investment.

(3) HKDL is an important and strategic tourism infrastructure investment of Hong Kong, and its development has to tie in with the Government's policy to promote tourism industry and overall economic development. We also attach great importance to the economic benefits and employment opportunities brought about by HKDL to the tourism-related industries (such as retail, restaurant, hotel, etc.). Given the current financial positions of HKDL and its strategic role in promoting our tourism industry as well as the overall economic development, the Government has no plan to sell our shares in HKITP or introduce third party investor(s) at present. In fact, the Government may, following agreement reached between both shareholders of the joint venture, negotiate the sale of our shares to third party investor(s). We will consider this option in the future as and when HKDL's financial positions are suitable and it is in the overall economic interests of Hong Kong.

HKDL is an important tourism facility of Hong Kong. As the majority shareholder of HKDL, the Government will continue to monitor the development and business performance of HKDL. We are pleased that TWDC has casted a vote of confidence in the prospects of the Hong Kong market and our tourism industry, and continues to make substantial investment in the expansion and development plan of HKDL. We hope that different sectors of the community as well as members of this Council will support the expansion and development plan, with a view to bringing growth momentum to HKDL's business and fostering further development of our tourism industry towards diversified and high value-added services.

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