

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

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## **KEY HIGHLIGHTS**

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- Hong Kong Disneyland (“HKDL”) once again delivered record attendance, occupancy and guest spending in fiscal 2012<sup>1</sup>
- 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**

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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**

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- 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.

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

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

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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.

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

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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**

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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**

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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.

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

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Key revenue drivers for the fiscal year were as follows:

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

Key financial results for the fiscal year were as follows:

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

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

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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)

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

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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**

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

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

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.