

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2010

KEY HIGHLIGHTS

- Hong Kong Disneyland (“HKDL”) achieved record theme park attendance, hotel occupancy and guest spending levels in fiscal 2010
- The business generated revenues and earnings before interest, taxes, depreciation and amortisation (EBITDA) of over HK\$3 billion and HK\$221 million, respectively, representing significant year over year improvement
- Major expansion of three new themed areas is underway with the first installment, based on the popular Disney/Pixar *Toy Story* franchise, to be completed in calendar year 2011
- HKDL remains focused on steadily growing its business and establishing its brand as the premier vacation, entertainment and convention resort destination in the region
- The Resort launched its Fifth Anniversary Celebration in January 2011

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 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 2010, HKSAR owns a majority interest of 53% in HKITP, with TWDC owning the remaining 47%. By completion of the expansion plan, HKSAR’s and TWDC’s ownership stakes are expected to be 52% and 48% respectively, although ending ownership will depend on the aggregate amount of equity contributions made by TWDC pursuant to the expansion plan.

The theme park consists of the following themed lands: Adventureland, Fantasyland, Main Street USA and Tomorrowland. 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 fifth full year of operations since its grand opening in 2005, HKDL remains focused on being the premier vacation, entertainment and convention resort destination for Hong Kong. As one of the most popular paid destinations in Hong Kong, HKDL has become an integral component in supporting Hong Kong’s position as one of the world’s top cities for leisure tourists and business visitors. HKDL will continue to market its world-class attractions, entertainment and interactive experiences along with lodging, dining and retailing to grow its business. It will continue to refresh and expand upon these offerings in order to attract new guests and generate repeat visitation, recognising an evolving marketplace and competitive environment.

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- Aimed at driving visitation from local, mainland China and Southeast Asia regions as well as enhancing the guest experience, HKDL launched the following key events and programmes in different seasonal periods to generate guest excitement and ongoing visitation interest throughout the fiscal year:
 - held “Disney’s Haunted Halloween” annual event with new haunted entertainment elements and photo opportunities at the beginning of fiscal 2010;
 - celebrated the Christmas season by offering “Sparkling Christmas – A Winter Wonderland” which included seasonal enhancements to “it’s a small world” attraction;
 - launched the “Year of the Tiger Celebration” during the Chinese New Year period, integrating both Chinese tradition and Disney entertainment elements, a strategy which increased HKDL’s penetration from mainland China and led to record attendance for this event;
 - continued the successful “Star Guest Program” which offered guests a variety of “Magical Moments” and exclusive experiences during the spring period; and
 - debuted new character appearances at HKDL as part of “Stitch and Friends Summer Hangout”, an event themed on the popular character from the Disney film *Lilo & Stitch*, during the summer school-break period.
- In addition to its strategy to grow the business, HKDL is committed to contributing to Hong Kong and the communities it serves, with a focus on staff and outreach programmes including those related to underprivileged families, environmental awareness and volunteerism. Key accomplishments during fiscal 2010:
 - encouraged approximately 350,000 volunteer hours, benefiting 700 local non-government organisations as part of the “Give a Day. Get a Disney Day” programme;
 - arranged more than 180 scholarships for the Hong Kong Academy of Performing Arts and Vocational Training Council, and placed more than 230 internships from local vocational institutions throughout the year;
 - continued to contribute to programmes benefiting children, seniors and families from underprivileged and local community groups through the Disney Children’s Fund; and
 - adopted higher “Green Standards” resulting in a double-digit reduction in energy consumption compared to its first year of operations.
- On average, HKDL employed more than 4,300 full-time and 1,400 part-time staff during this fiscal year, with nearly 50% of the full-time staff serving on HKDL’s opening team. The resort is ranked among the top employers by college students in Hong Kong and ranked significantly among Humanities students, according to the 2010 Universum Student Survey.
- HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2010, 92% of theme park guests and 98% of hotel guests reported that their overall experience was “excellent”, “very good”, or “good”.
- In recognition of its world-class assets, design and technical achievements, distinctive guest service and high family appeal, HKDL received 41 awards from local and international industry associations and publications during fiscal 2010. These honors included No. 1 Family Hotel in Asia, awarded by Trip Advisor Travelers’ Choice 2010; Best Theme Resort Hotel of Asia, awarded by Asia Hotel Forum; and International Service Excellence Award, awarded by International Council of Customer Service Organisations.

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THEME PARK EXPANSION

Construction is underway on the expansion of HKDL, which will ultimately add three new themed areas with a total land-take of about 23% of the area of the existing theme park. The new themed areas will deliver one-of-a-kind experiences and cutting edge technology to guests, as “Grizzly Gulch”, “Mystic Point” and “Toy Story Land” (all working titles) will initially open on a worldwide or Asia-exclusive basis. The new offerings are planned to be completed in phases through mid-2014, with the first themed area, “Toy Story Land”, to be completed and open to guests in calendar year 2011. The expansion of HKDL is expected to not only contribute further to the significant appeal of HKDL as a tourist destination, but also bring direct economic benefits to Hong Kong by providing a substantial number of construction and related jobs in the near-term, with additional resort-based employment positions once expansion is complete.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 2nd October 2010, HKDL enjoyed record attendance, occupancy, per capita spending and per room spending. Visitation to HKDL from Mainland China and International markets rose above the level of growth in overnight leisure arrivals to Hong Kong, driven by marketing and sales efforts and other factors. Increased guest spending through effective execution of strategic initiatives and product innovation resulted in total revenues growing at a greater rate than attendance in this fiscal year. In fiscal 2010, HKDL’s revenues increased by 19% to HK\$3,013 million. These results were achieved despite having one less week of operations than in the prior year due to the accounting calendar.

Top-line revenue growth combined with effective cost mitigation increased earnings before interest, taxes, depreciation and amortisation by HK\$291 million from fiscal 2009. Net loss decreased by 45%, or HK\$597 million, mainly due to improved operating results and the benefit of lower net finance costs.

Key revenue drivers for the fiscal year¹ were as follows:

Key revenue drivers	2010	2009
Park attendance (in millions)	5.2	4.6
Hotel occupancy (percentage)	82%	70%
Year-on-year change for key revenue drivers	Percentage change	
	2010	2009
Park attendance	13%	2%
Per capita guest spending	7%	(1%)
Available room nights	(2%)	2%
Per room guest spending	4%	8%
Origin of visitors as a percentage of total attendance	2010	2009
Local	33%	41%
Mainland China	42%	36%
International	25%	23%

¹ The fiscal year ends on the Saturday closest to 30 September and consists of 52 weeks, with the exception that approximately every six years the fiscal year is 53 weeks. Fiscal 2010 was a 52-week year ending on 2 October 2010; fiscal 2009 was a 53-week year ending on 3 October 2009.

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Key financial results for the fiscal year were as follows:

(in millions)	2010 HK\$	2009 HK\$	Variance HK\$
Revenues	3,013	2,541	472
Costs and expenses	2,792	2,611	181
Earnings / (Loss) before interest, taxes, depreciation and amortisation	221	(70)	291
Depreciation and amortisation	833	858	(25)
Net finance costs	106	387	(281)
NET PROFIT / (LOSS)	(718)	(1,315)	597
Non-current assets	13,893	13,937	(44)
Current assets	865	577	288
Current liabilities	(1,336)	(1,009)	(327)
Non-current liabilities	(3,672)	(4,063)	391
SHAREHOLDERS' EQUITY	9,750	9,442	308

Revenues

HKDL generates revenues predominantly from the sale of admissions to the theme park; room nights at the hotels; and merchandise, food and beverage sales at the theme park and hotels. For fiscal 2010, total revenues increased 19%, or HK\$472 million, to HK\$3,013 million primarily driven by increased park attendance and hotel room occupancy, coupled with 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 7%, or HK\$181 million, to HK\$2,792 million for fiscal 2010 was attributable to higher costs of sales and other volume-related operating and support costs, partially offset by savings from cost mitigation efforts.

Net finance costs

Net finance costs consist of interest expense and other borrowing costs, net of interest income. The decrease of 73%, or HK\$281 million, from fiscal 2009, to HK\$106 million in fiscal 2010 was attributable to the conversion of TWDC debt and credit facilities as well as a portion of the HKSAR-provided loan into equity that were made in late fiscal 2009, and the conversion of a portion of the HKSAR-provided loan into equity, during fiscal 2010.

Net Profit / (Loss)

Net loss for the year decreased 45%, or HK\$597 million, to HK\$718 million. This was largely attributable to revenue growth, cost mitigation efforts and lower net finance costs.

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Non-current assets

Non-current assets include property, plant and equipment, the leasehold land and projects in progress. Non-current assets slightly decreased by HK\$44 million to HK\$13,893 million due to depreciation and amortisation charges, partially offset by the development of expansion projects and addition of assets during the year.

Current assets

Current assets consist of inventories, trade and other receivables, cash and cash equivalents. The increase of 50%, or HK\$288 million, from fiscal 2009 to HK\$865 million in fiscal 2010 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 32%, or HK\$327 million, to HK\$1,336 million was primarily due to increased payables in relation to the construction of expansion projects and operating expenses.

Non-current liabilities

Non-current liabilities represent an unsecured long-term loan from HKSAR which is scheduled to mature on dates through 2030. The decrease of 10%, or HK\$391 million, to HK\$3,672 million was attributable to the conversion of a portion of this loan into ordinary shares, partially offset by deferred interest expense during the year.

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FINANCIAL LIQUIDITY

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

(in millions)	2010 HK\$	2009 HK\$	Variance HK\$
Cash provided / (used) by:			
Operating activities	546	(58)	604
Investing activities	(773)	(316)	(457)
Financing activities	513	111	402
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	286	(263)	

Cash and cash equivalents increased by 74%, or HK\$286 million, to HK\$675 million at the end of fiscal 2010. The increase was primarily attributable to the increase in net cash generated from operating activities and capital injection of HK\$513 million from TWDC to fund the expansion. TWDC received ordinary shares of HKITP in exchange for its capital contribution, and an equal amount of the HKSAR-provided loan was converted into ordinary shares. This increase in net cash was partially offset by cash used in investing activities, including those used for expansion and other capital spending, in fiscal 2010.

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This Annual Business Review has been prepared for information purposes. The information presents a summary of certain operational and financial information relating to HKDL.