

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2019

KEY HIGHLIGHTS

1. Hong Kong Disneyland Resort (“HKDL”) continues to play a pivotal role in its community and in fostering the development of Hong Kong as a top tourist destination in Asia.
2. For the period from July 2018 to June 2019 (i.e., the 12 months preceding the social incidents in Hong Kong), attendance, revenue and earnings before interest, taxes, depreciation and amortisation (“EBITDA”) were up 5%, 12% and 22% year-on-year, respectively, and HKDL delivered positive net income.
3. For the first nine months of fiscal 2019¹ (from October 2018 to June 2019), HKDL’s financial performance continued to display a strong trajectory with revenue up 11% year-on-year, EBITDA up 20% and net income increasing fourfold. During the same period, attendance grew by 5%, reflecting double-digit gains from Mainland China and several targeted international markets, and hotel occupancy increased by eight percentage points.
4. However, year-on-year trends significantly reversed in the fourth quarter of fiscal 2019 (from July to September 2019). As a result, full-year revenue in fiscal 2019 was at HK\$6.0 billion, comparable to that of the prior year and EBITDA reduced by 17% to HK\$1.1 billion, resulting in a net loss of HK\$105 million.
5. Although full-year attendance in fiscal 2019 was down 4% year-on-year due to the fourth quarter impact, HKDL did experience double-digit annual growth from key markets such as Japan, South Korea and Thailand. Since park opening in 2005, total cumulative attendance has reached more than 83 million. Full-year hotel occupancy was 74%, slightly below prior year. Per capita spending at the theme park increased by 4%, representing 10 years of continuous growth.

¹ Year-end date is on the Saturday closest to, if not on, 30 September. Fiscal 2019 was a 52-week year ended on 28 September 2019.

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6. HKDL remains optimistic about the future of its business and confident in its long-term potential. With the launch of “Ant-Man and The Wasp: Nano Battle!” in March 2019 as part of the shareholders’ ongoing investments in the resort, HKDL has solidified its position as a Marvel hub in Asia and is poised to strengthen its young adult and non-family guest base. Additionally, the Castle of Magical Dreams will be unveiled in 2020, followed by brand new nighttime spectacular and daytime show, as well as the future opening of the new Frozen-themed area.

BUSINESS OVERVIEW

7. HKDL develops and operates the Disney-branded theme park, themed resort 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 through its affiliates (“TWDC”). HKDL is managed by Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. At the end of fiscal 2019, HKSARG owned a 53% majority interest in HKITP and TWDC owned the remaining 47%.
8. The theme park includes themed attractions, entertainment and interactive experiences, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and nighttime entertainment offerings. The park is in the midst of a multiyear expansion and development plan that has been adding a number of new guest offerings based on some of Disney’s most popular stories, including the recently opened “Ant-Man and The Wasp: Nano Battle!”, and the Castle of Magical Dreams to be unveiled in 2020.
9. There are three themed resort hotels at HKDL with a total of 1 750 rooms.

OPERATIONAL HIGHLIGHTS

10. During fiscal 2019, HKDL continued to target guests from Hong Kong, Mainland China, Southeast Asia and other key international markets. HKDL drove visitation through new guest offerings and entertainment experiences based on some of Disney’s most beloved stories and characters, as well as through marketing, sales and publicity strategies. Key initiatives include:

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- a) *Growing year-round attendance through seasonal events and targeted market promotions:* Promotions and publicity strategies tailored to specific market segments and seasonal events successfully drove visitation. The Christmas “Let It Glow” campaign, featuring a variety of new and enhanced activities for guests to experience a Disney Christmas, drew family and young adult guests from both local and other market segments. HKDL’s Chinese New Year celebration saw growth in attendance from all regions, benefiting from strong product and the launch of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”) and Hong Kong-Zhuhai-Macao Bridge (“HZMB”). “Toy Story & Pixar Summer Splash” event that presented popular characters, namely Forky and Bo Peep, from the movie *Toy Story 4*, as well as member-exclusive programmes during the season, contributed to record-high Magic Access annual attendance.
- b) *Expanding market segments with launch of the second Marvel-themed attraction, “Ant-Man and The Wasp: Nano Battle!”:* Through extensive marketing promotions, trade briefings and stakeholder engagement events, as well as publicity campaigns, HKDL drove awareness for the highly anticipated “Ant-Man and The Wasp: Nano Battle!”. Prior to the opening, HKDL held nearly 60 trade briefings for 7 000 trade partners in Mainland China and other markets; organised previews for more than 1 200 trade guests from the worldwide offices of the Hong Kong Tourism Board, travel agents and travel trade associations; ran advertising in partnership with more than 130 travel agents in over 30 cities; and generated over 3 300 media stories and posts. The attraction has become the most popular attraction at HKDL, with a 10 percentage point higher mix of young adult and male guests compared with the guest mix of the overall park.
- c) *Increasing online conversion rates through enhanced experience:* WeChat introduced a new online store, selling HKDL theme park tickets and hotel reservations to guests from Mainland China. The improved transaction time and enhanced social marketing programmes increased the popularity of this online channel, doubling HKDL ticket sales on the platform. Driven by the eCommerce channels in Mainland China, digital sales significantly improved during major eCommerce festivals including a 130% increase in sales during Singles’ Day on 11 November 2018 compared with prior year, as well as a 145% year-on-year increase in sales during the winter and Chinese New Year holidays. In addition to leveraging external channels, HKDL continued to enhance its own digital channels by introducing an immersive “Magic 360” virtual hotel

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experience on HKDL's official website that contributed to a 23% improvement in the conversion rate of hotel bookings compared to the traditional "Photo & Video Gallery"; a new online lodging sales system to enhance the hotel reservation experience with shorter transaction time and a better sales and payment experience; and a digital version of Priority Special, allowing pre-arrival guests to purchase priority access to various attractions together with admission tickets on HKDL's official website.

- d) *Driving hotel occupancy and park attendance through expanded on-property outdoor events:* Outdoor events contributed to both park attendance and hotel occupancy. Following the success of HKDL's inaugural outdoor concert event hosted in fiscal 2018, concert organisers as well as regionally and internationally renowned artists have been attracted to the resort's coach park area as a performance venue, given that facilities of such scale, accessibility and ambience are not readily available elsewhere in Hong Kong. Grammy award-winning artist Ed Sheeran performed at HKDL for the first time in April 2019. The popular band from Taiwan, Mayday, performed for the second year in a row with six live shows in May 2019. These two concert events together attracted total audience of nearly 170 000 from Hong Kong, Mainland China and the rest of Asia. For the third consecutive year, HKDL organised the 10K Weekend in November 2018, one of the largest running events in Hong Kong. Themed to the highly popular Pixar stories and characters, the 10K Weekend recorded 20% and 4% year-on-year increases in overall enrolment and non-local participants, respectively. During the 10K Weekend, park attendance and hotel room nights increased by over 30% and 175%, respectively, compared to the prior-year event.
- e) *Expanding market reach by leveraging mega transportation infrastructure:* HKDL was among the first tourist destinations in Hong Kong to partner with key travel agents in Guangdong province to organise special tour groups highlighting the convenience of visiting Hong Kong and the resort via HZMB, which opened in October 2018. Shortly before the 2019 Chinese New Year, HKDL opened the "Magic Gateway" guest service centre at the Hong Kong Boundary Crossing Facilities of HZMB. To capitalise on potential opportunities from HZMB and XRL, HKDL collaborated with over 30 travel trade partners in more than 25 Mainland cities such as Guangzhou, Shenzhen and Xiamen to launch advertising campaigns, promoting HKDL as a year-round getaway destination with seasonal events, as well as new entertainment offerings and experiences. A series of trade briefings, mall shows and promotional videos, coupled

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with ticket and hotel offers, were also introduced in various Mainland cities.

11. HKDL contributes to the local community it serves by demonstrating well-known Disney values and leveraging the strengths of its cast members. In fiscal 2019, HKDL worked with more than 400 organisations to provide over 100 000 complimentary park visits for people in need and contributed around 10 000 hours of skills and services (cumulatively more than 100 000 hours since park opening in 2005) through its Disney VoluntEARS programme. HKDL's dedicated efforts to bring happiness to and inspire children with illnesses, youth and the overall community include:
 - a) *Launching philanthropic and outreach initiatives for families with children facing serious illnesses:* With the official opening of Hong Kong Children's Hospital in June 2019, the TWDC-funded "Dress Well" initiative produced over 26 000 pieces of newly-designed in-patient clothing that were both visually soothing and practical for different treatment needs. Disney VoluntEARS and Walt Disney Imagineers continued to collaborate with Playright Children's Play Association to create a mobile, multi-function play cart to help young patients relieve stress when transferring from the pediatric renal ward of Princess Margaret Hospital to the nephrology centre of the new Hong Kong Children's Hospital. Disney VoluntEARS also worked with Little Life Warrior Society and Children's Palliative Care Foundation to host activities at HKDL for young patients, their family members and volunteers, and joined forces with Children's Cancer Foundation to provide toys and learning equipment for its new community service centre in So Uk Estate that serves thousands of young cancer survivors.
 - b) *Promoting family volunteerism:* HKDL took a proactive role in fostering family volunteerism in Hong Kong. Building on the success of the "Give a Day, Get a Disney Day" programme, HKDL and Agency of Volunteer Services launched the "Family Plus" reward scheme with an additional donation of 5 000 tickets to encourage volunteer service by entire families. In fiscal 2019, the programme contributed to over 2.7 million hours of volunteer service for people in need, with a grand total of nearly 16 million hours since commencement of the programme in 2010.
 - c) *Inspiring youth:* "Disney ImagiNations Competition", in its ninth year, continued to be popular among tertiary students. Winners of the competition were awarded a trip to Walt Disney Imagineering's headquarters in California, followed by an eight-week internship at

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HKDL. For the sixth year in a row, HKDL jointly organised the “We Did It!” Award scheme with the Home-School Cooperation Committee to recognise students’ non-academic achievements. The scheme awarded more than 6 200 students and parents with park admission tickets for their efforts to work as a team to support kids pursuing dreams.

- d) *Championing diversity and inclusion:* Following the launch of the “Play N Able” project in 2017, HKDL expanded its engagement with medical professionals to include parents, sharing information about the importance of free play for children with special needs. HKDL donated a portion of the 10K Weekend Run proceeds and 1 100 park admission tickets to the Tung Wah Group of Hospitals’ Ho Yuk Ching Educational Psychology Service Centre. The donation focused on children and youth with special educational needs by funding a two-year social training and counselling programme for low-income families. HKDL also teamed up with Special Olympics Hong Kong to welcome 150 athletes and family members to the park in celebration of their outstanding performance in the 2019 Special Olympics World Summer Games. For the 13th consecutive year, HKDL offered apprenticeships for people with disabilities in partnership with the Labour Department, the Social Welfare Department, the Hong Kong Council of Social Service and 20 non-governmental organisations. During fiscal 2019, the resort employed around 100 people with disabilities.
- e) *Nurturing theme park and tourism expertise:* HKDL continued to participate in the Employees Retraining Board’s “First-Hire-Then-Train” programme and partnered with the Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong to offer a two-year full-time Higher Diploma Programme in Resort and Theme Park Management and an eight-month part-time Professional Diploma in Resort and Theme Park Services. HKDL offered 27 scholarships and over 230 internships to students from the Hong Kong Academy for Performing Arts, Vocational Training Centre and other local higher educational institutions.
- f) *Promoting conservation and awareness:* HKDL has been working closely with Foodlink Foundation to turn excessive food materials into meals for people in need. More than 148 000 meals have been donated since 2013. During the summer of 2019, HKDL chefs and Disney VoluntEARS hosted a “Cooking with Cookie” cupcake-decoration workshop using surplus food to promote the idea of food appreciation to over a hundred children and parents, with the new Duffy and Friends

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character Cookie Ann making a special appearance. Since the opening of HKSARG's organic resources recovery centre in Siu Ho Wan in July 2019, HKDL has delivered over 790 tonnes of food surplus from its park and three resort hotels to the facility. HKDL launched another major environmental initiative with the installation of 3 500 solar cells to produce more than 1.4-megawatt hours (MWh) of renewable electricity per year, making it Hong Kong's largest solar power system and generating 70% more clean electricity than the next largest facility in Hong Kong. Together with the 1 000 solar cells installed in December 2019, HKDL is producing over 1.86 MWh of electricity per year, equivalent to the annual electricity consumption of over 560 three-person households.

12. On average, HKDL employed more than 5 500 full-time and 2 400 part-time staff during fiscal 2019, remaining one of Hong Kong's largest employers in the tourism and family entertainment industry. HKDL is committed to developing a highly-skilled, quality labour force, and provided nearly 400 000 hours of professional and technical training during the year.
13. HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2019, 95% of theme park guests surveyed and 93% of hotel guests surveyed reported that their overall experience was "excellent", "very good" or "good".
14. HKDL received 59 awards during fiscal 2019 in recognition of its design and marketing excellence, guest service, employment relationship as well as commitment to the community and environment. HKDL received the "Excellence Brand of Corporate Themed Events and Outdoor Venue" award in Hong Kong Leaders' Choice Brand Awards 2019 organised by Metro Finance and the "Technology Excellence Awards for Media & Entertainment" from Hong Kong Business Magazine. HKDL's 10K Weekend in fiscal 2019 was recognised in the "Green Outdoor Event Commendation Scheme" organised by the Environmental Protection Department and the Environmental Campaign Committee. HKDL also received three recruitment-related awards in fiscal 2019, including the "Innovative Recruitment Strategy Award" and "Employer of Choice Award 2018" by Jobmarket, and the "Best Innovative Recruitment Campaign Award 2018" by CTgoodjobs.

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KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

15. Following the strong growth in guest spending, park attendance and hotel occupancy in the first nine months of fiscal 2019, HKDL's year-on-year comparisons became more challenging when the social incidents in Hong Kong started to turn volatile in the fourth quarter of the year, which was a key summer travel period. For fiscal 2019, HKDL generated revenue of HK\$6,047 million which was comparable to the record set in the prior year. EBITDA of HK\$1,126 million, 17% below prior year, reflected additional costs in support of the expanded offerings.
16. Park attendance for fiscal 2019 was 6.5 million, down 4% compared to prior year due to lower guest visitation from all three market segments – Mainland China, local and other markets – as a result of the situation affecting tourism across Hong Kong. Lower park attendance was partially offset by year-on-year growth of 4% and 2% in per capita and per room guest spending, respectively, driven by effective pricing strategies and expanded guest offerings. Average hotel occupancy decreased slightly from prior year by one percentage point to 74%.

Key revenue drivers for the fiscal year were as follows:

	2019	2018
Park attendance (in millions)	6.5	6.7
Hotel occupancy	74%	75%
Year-on-year change for key revenue drivers	Percentage change	
	2019	2018
Park attendance	(4%)	8%
Per capita spending	4%	6%
Available room nights	- %	33%
Per room guest spending	2%	(8%)
Origin of visitors as a percentage of total attendance	2019	2018
Local	41%	40%
Mainland China	33%	34%
Other markets	26%	26%

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Key financial results for the fiscal year were as follows:

	2019	2018	Variance
(in HK\$ millions)			
Revenue	6,047	6,021	26
Costs and expenses	(4,921)	(4,666)	(255)
Earnings before interest, taxes, depreciation and amortisation	1,126	1,355	(229)
Depreciation and amortisation	(1,250)	(1,384)	134
Net finance income/(cost)	19	(25)	44
NET PROFIT/(LOSS)	(105)	(54)	(51)
Current assets	3,146	2,788	358
Non-current assets	19,621	19,339	282
Current liabilities	(1,859)	(2,417)	558
Non-current liabilities	(2,045)	(1,964)	(81)
SHAREHOLDERS' EQUITY	18,863	17,746	1,117

Revenue

17. HKDL generates revenue predominantly from the sale of admission tickets to the theme park, room nights at the hotels as well as merchandise, food and beverage at both the theme park and hotels. For fiscal 2019, total revenue increased by HK\$26 million to HK\$6,047 million, driven by higher guest spending at the park and hotels, which was largely offset by lower park attendance and occupied hotel room nights due to the situation in the last quarter of the year.

Costs and expenses

18. Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The increase of 5%, or HK\$255 million, to HK\$4,921 million for fiscal 2019 was attributable to higher operating and support costs driven by cost inflation and increased spending for new guest offerings, such as “Ant-Man and The Wasp: Nano Battle!”

Depreciation and amortisation

19. Depreciation and amortisation decreased by 10%, or HK\$134 million, to HK\$1,250 million driven by certain assets that were fully depreciated. The decrease was partially offset by depreciation associated with new guest offerings, such as “Ant-Man and The Wasp: Nano Battle!”

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Net finance income/(cost)

20. Net finance income consists of interest income, net of interest expense. The change of HK\$44 million, from a net finance cost of HK\$25 million for fiscal 2018 to a net finance income of HK\$19 million for fiscal 2019, reflected increased interest income as a result of higher cash balances and interest rates.

Net profit/(loss)

21. HKDL had a net loss of HK\$105 million in fiscal 2019, which was HK\$51 million less favourable to prior year due to the fourth quarter impact.

Current assets

22. Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The increase of 13%, or HK\$358 million, to HK\$3,146 million in fiscal 2019 was mainly attributable to a net increase in cash and cash equivalents (See “FINANCIAL LIQUIDITY” section below for details) and partially offset by lower receivables during the year.

Non-current assets

23. Non-current assets include property, plant and equipment, leased land and projects in progress. Non-current assets increased by 1%, or HK\$282 million, to HK\$19,621 million mainly due to increased spending on the multiyear expansion and development plan.

Current liabilities

24. Current liabilities consist of trade and other payables, deferred revenue and short-term borrowings. The decrease of 23%, or HK\$558 million, to HK\$1,859 million mainly reflected the loan repayment to HKSARG during the year and lower deferred revenue related to advance theme park ticket sales.

Non-current liabilities

25. Non-current liabilities include long-term borrowings and retirement plan liabilities. The balance primarily represents unsecured long-term loans from HKSARG and TWDC, which are repayable in instalments on dates through fiscal 2025. The increase of 4%, or HK\$81 million, to HK\$2,045 million was mainly driven by higher retirement plan liabilities and accrued interest on loans during the year.

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FINANCIAL LIQUIDITY

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

	2019	2018	Variance
(in HK\$ millions)			
Cash generated / (used) by:			
Operating activities	1,049	1,503	(454)
Investing activities	(1,458)	(1,320)	(138)
Financing activities	830	1,129	(299)
NET INCREASE IN			
CASH AND CASH EQUIVALENTS	421	1,312	(891)

26. Cash and cash equivalents increased by HK\$421 million from HK\$2,435 million at the end of fiscal 2018 to HK\$2,856 million at the end of fiscal 2019. The increase was primarily attributable to net cash generated from operating activities and equity contributions from shareholders for the multiyear expansion and development plan, partially offset by spending on capital projects as well as the loan repayment to HKSARG.

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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.