

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2020

KEY HIGHLIGHTS

1. Hong Kong Disneyland Resort (“HKDL”) remains committed to maintaining its pivotal role in the community and in fostering the development of Hong Kong as a top tourist destination in Asia. Since park opening in 2005, total cumulative attendance has reached more than 85 million.
2. In fiscal 2020¹, the social incidents earlier in the year and later on, the coronavirus disease 2019 (“COVID-19”) pandemic created unprecedented challenges to the economy and the travel industry in particular, including HKDL. Since early calendar year 2020, travelling to Hong Kong has been under heavy restrictions. HKDL’s theme park was closed for nearly 60% of the calendar days in the fiscal year (i.e. about seven months) as part of the preventive measures required and advised by the health authorities of the Government of Hong Kong Special Administrative Region (“HKSARG”). While the global health crisis has drastically affected theme park operations, promoting health and safety for HKDL’s guests and staff has always been a top priority. A combination of health and safety measures have been implemented carefully in the resort to fulfil the Government’s guidance and requirements.
3. In spite of the park closure, HKDL’s solid guest offerings and branding remained favourably impressive to guests. The park’s reopening in June and September 2020 attracted positive media coverage and social attention both locally and internationally amidst the global pandemic. The resort also dedicated its efforts to drive local visitation during the reopening.
4. HKDL would not have been able to navigate through these unprecedented challenges without its team of more than 7 000-strong, dedicated and resilient staff. Throughout this period, a proactive and transparent communication approach was taken to ensure staff were well-informed of the latest pandemic developments and related measures. To accommodate limits on physical gatherings, technological adjustments were deployed to support flexible work arrangements and virtual training.
5. In fiscal 2020, due to the adverse impact of the social incidents in the first quarter and the COVID-19 pandemic from the second quarter onwards, HKDL’s full-year revenue was down 76% to HK\$1.4 billion. Earnings

¹ With a year-end date on the Saturday closest to, if not on, 30 September, the fiscal year consists of 52 weeks with the exception that approximately every six years, the fiscal year comprises a 53-week period. Fiscal 2020 was a 53-week year ending on 3 October 2020; fiscal 2019 was a 52-week year ending on 28 September 2019.

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before interest, taxes, depreciation and amortisation (“EBITDA”) was negative HK\$1.5 billion, and net loss was HK\$2.7 billion. In October 2020, HKDL started drawing upon the revolver facility funded by The Walt Disney Company (“TWDC”). HKDL will continue to closely monitor its operational liquidity as the resort addresses the challenges ahead.

6. Despite the challenges, HKDL is optimistic about its long-term potential. As we look past the impact of COVID-19 towards a recovering tourism industry spurred by the growing middle class in Mainland China and Southeast Asia, as well as the influence of the Greater Bay Area initiatives on cross-boundary travel, HKDL is well positioned to welcome guests with new and exciting celebrations and products. In fiscal 2021, HKDL will continue to leverage the 15th Anniversary and the Castle of Magical Dreams launched in November 2020, in addition to future offerings as market conditions allow, to attract more visitation.
7. HKDL remains committed to responsibly managing its business amidst the prolonged pandemic. The resort continuously assesses its business, including impacts caused by the pandemic, and reviews its strategies as well as future expansion and development plans based on management’s best estimates for a proposed recovery trajectory and other relevant factors.

BUSINESS OVERVIEW

8. HKDL consists of a 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 HKSARG and TWDC. HKDL is managed by a separate subsidiary wholly owned by TWDC, Hong Kong Disneyland Management Limited. At the end of fiscal 2020, HKSARG owned a 52% majority interest in HKITP and TWDC owned the remaining 48%.
9. The theme park includes themed attractions, entertainment and interactive experiences, restaurants, merchandise shops and refreshment stands. Additionally, there are daily daytime and night-time entertainment offerings. The park is also in the midst of a multi-year 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 Castle of Magical Dreams, though such plan is currently delayed due to adverse market conditions as a result of the COVID-19 pandemic and other factors.

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10. There are three themed resort hotels at HKDL with a total of 1 750 rooms.

OPERATIONAL HIGHLIGHTS

11. The well-being of the resort's guests and staff is always a top priority to HKDL. Tapping into TWDC's best practices in reopening its parks and resorts across the world, HKDL has taken a deliberate approach to health and safety measures and social distancing guidelines in alignment with the latest requirements and guidance from the Government's health authorities. Upon reopening, the park introduced capacity controls as required by the Government, and guests were required to make reservations for their visit prior to arrival. Social distancing measures were implemented in queues, restaurants (including seating arrangements), attraction vehicles, theatres and other facilities throughout the park. Markers and signage were added to queues and show viewing areas to remind guests to keep an appropriate social distance from others. Other related measures such as health screenings, temperature checks, face mask requirements, and increased cleaning and sanitisation are under ongoing review and will be adjusted as necessary according to the Government's latest guidance and regulations. Staff has received additional training on both new social distancing measures and the continued importance of personal health and hygiene.
12. Given the cross-border/boundary travel restrictions in place for most of fiscal 2020, HKDL focused on driving local visitation through marketing, sales and publicity strategies as well as new guest offerings and entertainment experiences based on some of Disney's most beloved stories and characters. Key initiatives included:
- a) *Achieving five-year record high Magic Access membership totals through targeted promotions:* HKDL's Magic Access (annual pass) membership base expanded 8% in fiscal 2020, strengthened by special incentives and new member welcoming activities. Popular seasonal events such as Halloween and Christmas of 2019, as well as member-exclusive promotional events proved successful in expanding the membership experience. Member-exclusive collectible merchandise as well as food and beverage offerings also contributed to year-on-year growth in members' per capita spending on merchandise, food and beverage.
 - b) *Capturing local attendance with new promotions and flexible arrangements:* Special ticket offers were promoted through online shopping channels and enhanced with flexible cancellation arrangements. A "2+1 Magic Ticket

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Offer” performed particularly well, contributing over 50% of tickets sold during the reopening period.

- c) *Promoting family staycations with prudent health and safety measures in place:* Celebratory packages, themed bundles and hotel recreation activities were highlighted in marketing and publicity efforts to induce local families to stay in HKDL’s hotels. Collaboration with local travel agents also drove the sale of weekday staycation packages. New hotel benefits were introduced to the existing MyDisney Fans programme to drive staycations and increase direct sales on HKDL’s website. Additionally, a special local TV feature programme was produced to showcase a complete Disney resort itinerary. To keep guests informed of applicable guidelines when visiting the resort, HKDL’s website and mobile application were continuously updated with health and safety information.
- d) *Optimising and creating revenue opportunities despite the challenging operational environment:* Multiple food and beverage offers were made available to entice local guests to book online and visit restaurants in the resort. “Dine & Shop Voucher” was also launched in the fiscal year to capture early spending commitment from local guests. Between the closure periods, an innovative new online merchandise selling initiative was introduced to enable guests to buy and redeem limited pins, generating nearly HK\$2 million in revenue.
- e) *Increasing engagement through social and digital efforts:* During the seven-month park closure in fiscal 2020, HKDL continued to engage its fans and community with a visible brand presence and aspirational digital Disney content, including coverage of the park’s reopening. To celebrate the resort’s anniversary in September, HKDL released a virtual birthday celebration video that reached more than 500 000 people locally. In Mainland China, key online travel agents were engaged to promote HKDL’s Chinese New Year campaign, reaching over five million people in the Greater Bay Area. Through participation in major sales festivals on various digital platforms, HKDL capitalised on growing consumer demand in e-commerce with flexible offerings, such as free cancellation and open date lodging voucher.
- f) *Gearing up to support tourism recovery in fiscal 2021:* HKDL is cautiously optimistic on the outlook for a gradual border/boundary reopening and the potential for travel bubble arrangements between Hong Kong and certain destinations. The resort continues to work closely with the Hong Kong

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Tourism Board in supporting the roll-out of its marketing campaigns in local, Mainland China and international markets. The resort's 15th anniversary and the new Castle of Magical Dreams will continue to be key drivers to attract local and overseas visitation to Hong Kong and HKDL. Driving corporate, catering businesses and youth programmes both locally and in the Greater Bay Area will also be a focus of the resort. HKDL's official website and e-commerce stores will continue to be enhanced to further capture online business opportunities. The resort will continue to drive staycations with the anniversary celebration and more offerings targeting young adults. Efforts highlighting the resort's health and safety measures will continue to further build travellers' confidence in visiting HKDL.

13. The COVID-19 pandemic is a reminder that HKDL's community engagement strategy needs to remain innovative, agile and flexible to continue to support families and children in need. HKDL worked with over 200 organisations to provide more than 80 000 complimentary park tickets in fiscal 2020. This includes the long-standing "We Did It!" ticket award scheme, offered in partnership with the Committee on Home-School Co-operation to promote family volunteerism in primary schools. Community outreach programmes and services required significant adaptations to accommodate social distancing with the assistance of technology. The resort transformed the Disney VoluntEARS programmes to online formats, contributing around 4 400 hours of skills and services during the pandemic, cumulatively more than 100 000 hours since the park's opening in 2005. Key highlights include:
 - a) *Creating magic in new ways*: Disney VoluntEARS continued to conduct digital storytelling and play sessions during the pandemic. From May to September 2020, the team held 17 online events with more than 500 participants from the Hong Kong Outlying Islands Women's Association, the Children's Cancer Foundation and Hong Kong Children's Hospital. Disney VoluntEARS was also the only corporate volunteering team invited to design and produce a video series of eight 30-minute episodes that aired on the Hong Kong Children's Hospital Children's TV channel. A new social channel, Disney Moment HK, was launched on Facebook and Instagram to connect fans on the resort's corporate social responsibility efforts.
 - b) *Sharing resources to support the community*: HKDL expanded its surplus food donation programme with Foodlink Foundation to help Hong Kong residents during the COVID-19 pandemic. In fiscal 2020, HKDL donated more than double the meals compared to prior year and, cumulatively, over 205 000 meals since 2013. HKDL also donated more than 3 300 kg of

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chocolate in February and March 2020 to cheer up children from local families during the school closure period. Throughout the summer and mid-autumn festival, Disney VoluntEARS prepared 12 000 pancakes and 500 healthy mooncakes to spread happiness to those in need. During the pandemic, HKDL also worked with its travel partners to accommodate free parking for 100 buses and coaches.

- c) *Spreading the festive spirit:* In collaboration with a number of non-governmental organisations, HKDL introduced a series of charity efforts to celebrate the holiday season with park guests in December 2019. This includes donations generated from the selling of the first-of-their-kind “Minnie Wishmas Ears” headbands specially created for the Make-A-Wish HK Foundation, as well as the resort’s unique “Holiday Wishes Charity Postcards” for Operation Santa Claus.
 - d) *Championing diversity and inclusion:* The resort donated a portion of its proceeds from the “Disney 10K Weekend” run event to the Hong Kong Federation of Handicapped Youth (“HKFHY”) to support its “HKFHY Momentum Academy” programme. The scheme encourages children and youth with disabilities to take part in sports and outdoor activities for developing physical strength, social experiences, confidence and a healthy lifestyle. Around 60 runners from HKFHY, including those with visual, hearing and physical disabilities, participated in the “Monsters, Inc. 3K” race on 3 November 2019.
 - e) *Caring for the environment:* Since the opening of the Government’s organic resources recovery center in Siu Ho Wan in July 2019, HKDL has delivered over 1 100 tonnes of food waste from its park and three resort hotels to the facility.
 - f) *Nurturing theme park and tourism expertise:* HKDL continued to participate in the Employees Retraining Board’s “First-Hire-Then-Train” programme, working with the Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong. This offered 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 36 internships to students from local tertiary institutions.
14. On average, HKDL employed more than 5 300 full-time and 1 800 part-time staff during fiscal 2020, 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

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140 000 hours of professional and technical training during the year. Multiple online learning programmes and events were organised to foster an inclusive work environment in addition to a series of personal development learning sessions. A month-long Virtual Leadership Spotlight Event was also held in August 2020 to inspire leaders to pursue excellence through a dynamic line-up of inspirational speakers. More than 99% of attendees found these sessions useful with new perspectives, and many of them enjoyed the new format of online learning.

15. HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2020, 95% of theme park guests surveyed and 92% of hotel guests surveyed reported that their overall experience was “excellent”, “very good” or “good.” Despite operational challenges brought about by the pandemic, 97% of guests were appreciative of the preventive measures taken in the park after the reopening in June, and 99% of guests felt that they were able to have a “care-free” visit.
16. HKDL received 59 awards during fiscal 2020 in recognition of its design and marketing excellence, guest service, employment relationship as well as the resort’s commitment to the community and environment. The resort received “My Favorite Banquet Venue (wedding venue)” from *U Magazine*’s 2020 U Food Awards, as well as “Best Hotel Wedding Banquet - Outlying Islands” from ESDlife’s Bridal Award 2020. Further, the marketing campaign for “Ant-Man and The Wasp: Nano Battle!” clinched three gold awards in “Best Idea – Customer Acquisition”, “Best Idea – Digital Solution” and “Best Use – Gaming” from *Marketing Magazine*’s MARKies Awards 2020. On environmental matters, HKDL received the “Role Model Award” and “Best Materials Award” for its solar photovoltaic system in the Solar Photovoltaic System Installation Role Model Election. The resort was also recognised in the Inclusive Environment Recognition Scheme organised by the Hong Kong Joint Council for People with Disabilities and the Hong Kong Council of Social Service. It was also named as one of the “Most Attractive Employers 2020” in Hong Kong by Universum and the “Talent Accelerator” in the Asia/Pacific region at International Data Corporation’s 2019 Digital Transformation Awards.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

17. In accordance with the Government’s advice and requirements amidst the COVID-19 pandemic, HKDL’s theme park was closed for 217 days in fiscal 2020, and the resort hotels operated at an adjusted service level. As a result

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of these closures, as well as social incidents earlier in the year, revenue decreased by 76% to HK\$1,443 million for fiscal 2020. EBITDA was negative HK\$1,465 million, reflecting lower revenue, partially offset by a 41% reduction in costs from lower volumes and mitigation efforts.

18. Park attendance for fiscal 2020 was 1.7 million, down 73% compared to prior year due to the prolonged park closure and lower inbound leisure arrivals resulting from the imposition of travel restrictions. Per capita spending fell by 18% year-on-year, reflecting an unfavourable attendance mix, while per room guest spending increased by 22% as driven by higher guest spending on food, beverage and merchandise at the hotels. Average hotel occupancy for the year was 15% compared to 74% in the prior year. Given the reduced operation during fiscal 2020, the resort also measured a hotel utilisation rate at 34% based on adjusted available capacity, which excludes room inventory temporarily removed from service in order to ensure compliance with the Government's health and safety measures and social distancing guidelines.

Key revenue drivers for the fiscal year were as follows:

	2020	2019
Park attendance (in millions)	1.7	6.5
Hotel occupancy	15%	74%
Hotel utilisation	34%	n/a

Year-on-year change for key revenue drivers	Percentage change	
	2020	2019
Park attendance	(73%)	(4%)
Per capita spending	(18%)	4%
Available room nights	2 %	- %
Per room guest spending	22%	2%

Origin of visitors as a percentage of total attendance	2020	2019
	Local	75%
Mainland China	8%	33%
Other markets	17%	26%

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Key financial results for the fiscal year were as follows:

	2020	2019	Variance
(in HK\$ millions)			
Revenue	1,443	6,047	(4,604)
Costs and expenses	(2,908)	(4,921)	2,013
Earnings before interest, taxes, depreciation and amortisation	(1,465)	1,126	(2,591)
Depreciation and amortisation	(1,211)	(1,250)	39
Net finance income	14	19	(5)
NET LOSS	(2,662)	(105)	(2,557)
Current assets	1,148	3,146	(1,998)
Non-current assets	20,288	19,621	667
Current liabilities	(1,650)	(1,859)	209
Non-current liabilities	(2,162)	(2,045)	(117)
SHAREHOLDERS' EQUITY	17,624	18,863	(1,239)

Revenue

19. 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 2020, total revenue decreased by 76%, or HK\$4,604 million, to HK\$1,443 million as a result of the prolonged park closure from the second quarter onwards and social incidents in the first quarter.

Costs and expenses

20. Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. For fiscal 2020, total costs and expenses decreased by 41%, or HK\$2,013 million, to HK\$2,908 million, reflecting impact from the park closure, in addition to management's decisions to significantly contain costs. The cost containment measures included implementation of unpaid leave, reduced marketing spending and cancellation of certain seasonal events. These decisions, as well as participation in the Employment Support Scheme launched by HKSARG, were intended to preserve jobs while prudently managing costs.

Depreciation and amortisation

21. Depreciation and amortisation decreased by 3%, or HK\$39 million, to HK\$1,211 million as certain assets were fully depreciated during the year.

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Net finance income

22. Net finance income consists of interest income, net of interest expense. The decrease of 26%, or HK\$5 million, to HK\$14 million reflected lower interest income on decreased cash balances.

Net loss

23. Due to the challenges in the year, HKDL had a net loss of HK\$2,662 million in fiscal 2020, as compared to a net loss of HK\$105 million in fiscal 2019.

Current assets

24. Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The decrease of 64%, or HK\$1,998 million, to HK\$1,148 million in fiscal 2020 was mainly attributable to a net decrease in cash and cash equivalents (See “FINANCIAL LIQUIDITY” section below for details) and lower receivables during the year.

Non-current assets

25. Non-current assets include property, plant and equipment, leased land and projects in progress. Non-current assets increased by 3%, or HK\$667 million, to HK\$20,288 million, mainly due to increased spending on the multi-year expansion and development plan.

Current liabilities

26. Current liabilities consist of trade and other payables, deferred revenue and short-term borrowings. The decrease of 11%, or HK\$209 million, to HK\$1,650 million was mainly due to lower deferred revenue related to advance theme park ticket sales and lower accounts payable during the year.

Non-current liabilities

27. 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 6%, or HK\$117 million, to HK\$2,162 million was mainly driven by higher retirement plan liabilities.

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FINANCIAL LIQUIDITY

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

	2020	2019	Variance
(in HK\$ millions)			
Cash (used) / generated by:			
Operating activities	(1,650)	1,049	(2,699)
Investing activities	(1,632)	(1,458)	(174)
Financing activities	1,395	830	565
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(1,887)	421	(2,308)

28. Cash and cash equivalents decreased by HK\$1,887 million, from HK\$2,856 million at the end of fiscal 2019 to HK\$969 million at the end of fiscal 2020. The decrease was primarily attributable to net cash used in operating activities and spending on capital projects during fiscal 2020, partially offset by equity contributions from shareholders for the multi-year expansion development plan.

29. TWDC granted a revolver facility of HK\$2.1 billion to HKDL in 2017, which was undrawn as of fiscal 2020 year-end. HKDL started drawing upon this revolver facility in fiscal 2021 to support working capital and operational needs, and will continue to closely monitor its liquidity.

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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.