

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2009

KEY HIGHLIGHTS

- Since its grand opening in 2005, HKDL remains focused on steadily growing its business and establishing its brand as the premier vacation, entertainment, and convention resort destination in the region
- For the year, total attendance grew 2% versus prior year
- Loss before interest, taxes, depreciation and amortisation decreased by 57% to HK\$70 million in fiscal 2009
- Agreed-upon capital realignment and expansion plan reduced HKDL's debt substantially, providing for significant attractions and entertainment asset growth as well as putting HKDL on a path for further long-term success

BUSINESS OVERVIEW

Hong Kong Disneyland ("HKDL") develops and operates the Disney-branded theme park, themed hotels and associated complex and infrastructure in Hong Kong on Lantau Island. 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.

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 just completed its fourth 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 and augmenting 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 as well as lodging, dining and shopping assets to grow its business. It will continue to refresh and expand upon these offerings in order to attract new guests and generate repeat visitation, recognizing an evolving marketplace and competitive environment.
- With an aim of driving visitation from local, mainland China and Southeast Asia regions and increasing guest experiences, HKDL launched the following key events and programmes in

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different seasonal periods to generate guest excitement and ongoing interest in visiting throughout the fiscal year:

- offered a variety of haunted entertainment elements during “Disney’s Haunted Halloween” event at the beginning of fiscal 2009;
 - held “Sparkling Christmas – Royal Kingdom” during the winter holiday season;
 - launched “Mickey Celebrates the Year of the Ox” during the Chinese New Year period, combining Chinese traditions with Disney creative elements;
 - offered a Valentine-based “Celebration of Love” following the Chinese New Year celebration;
 - launched its “Star Guest Program” – with new products including the Star Pass, Star Finale and Star Tour – which continued throughout the spring season; and
 - held “Stitch’s Summer Dance Bash,” an event themed on the popular character Stitch from the Disney / Pixar 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 its community, with a focus on staff and community programmes such as underprivileged families, environmental awareness, and volunteerism. Key actions during fiscal 2009 included:
 - engaged in more than 100 local community activities and reached out to more than 100,000 children and families from among the underprivileged, senior, and other local community groups;
 - placed more than 200 students from local vocational institutions in internships and offered 12 study scholarships to students of the Hong Kong Academy for Performing Arts;
 - donated in-kind merchandise and equipment to underprivileged groups; and
 - provided trees and contributed horticultural advisory services in support of environmental protection and conservation.
 - HKDL employed more than 4,400 full-time staff and 1,200 part-time on average throughout the year and provided nearly a quarter million hours of professional and technical development, thus further strengthening the skill sets and quality of its workforce.
 - HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2009, 91% of theme park guests and 97% of hotel guests reported that their overall experience was “excellent,” “very good,” or “good.”
 - During fiscal 2009, HKDL received more than 25 awards from local and international industry associations and publications in recognition of its world-class assets, design and technical achievements, distinctive guest service, and appeal to families. Several of the specific awards are listed below:
 - Most Popular Resort Destination of Asia, awarded by Asia Hotel Forum;
 - The Most Influential Theme Park in China, awarded by The 5th Most Influential Brands in China Summit;
 - Top 10 Best Theme Hotel in China, awarded by 2008 China Hotel Starlight Award;
 - No. 1 – Best for Families (Asia), awarded by Trip Advisor Travelers’ Choice 2009; and

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- Top 10 Family Resorts – Asia, awarded by Holidays with Kids magazine.

CAPITAL REALIGNMENT AND EXPANSION PLAN

In July 2009, the shareholders of HKITP entered into a capital realignment agreement and expansion plan for HKDL. Under the agreement, TWDC converted its HK\$2,765 million loan and revolving credit facility to HKDL into ordinary shares and made a contribution of HK\$311 million in additional capital during fiscal 2009. This was accompanied by conversion of an equal amount of the HKSAR-provided loan to HKDL into ordinary shares, leaving a balance of HK\$4,063 million at the end of fiscal 2009. Over approximately the next five years, TWDC will make capital contributions in exchange for additional ordinary shares of HKITP to fund the expansion and other financial needs of the business. HKSAR will convert an additional amount of its loan into ordinary shares equal to the TWDC contributions, subject to a maximum conversion amount that would leave HK\$1 billion of the HKSAR loan outstanding by the end of the expansion. As a result of the above arrangements, TWDC's interest in HKDL increased from 43% to 47% during fiscal 2009 and is projected to increase to approximately 48%, although TWDC's ending ownership will depend on the aggregate amount of equity contributions made by TWDC pursuant to the expansion plan.

The expansion plan comprises three new themed areas with a total land-take of about 23% of the area of the existing theme park. There will be more than 30 new attractions, entertainment, and interactive experiences bringing the total at HKDL to over 100 such assets for guests to enjoy during their visits. The new themed areas will deliver one-of-a-kind experiences to guests, as "Grizzly Gulch" and "Mystic Point" will be exclusive on a worldwide basis for five years after opening and "Toy Story Land" (all working titles) will be exclusive in the Asia region for five years after opening. The new offerings are planned to be completed in phases through mid 2014. 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 and additional resort-based employment positions once expansion is complete.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 3rd October, 2009, HKDL's loss before interest, taxes, depreciation and amortisation decreased 57% to HK\$70 million from HK\$161 million in fiscal 2008, mainly due to continued cost containment efforts and 2% year-on-year growth in attendance. Despite the global economic downturn, for the period from October to April of fiscal 2009, HKDL experienced double-digit growth in attendance over the same period in fiscal 2008. However, after the first confirmed H1N1 influenza case was reported in Hong Kong in May 2009, a significant reduction in leisure and business travel ensued, resulting in broadly reported impacts to hotels, resorts and tourist attractions. It is believed that the reduction in attendance during the remaining months of the fiscal year reflected the impact of H1N1 and reduced the full year's attendance growth to 2% compared to fiscal 2008.

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Key revenue drivers for the fiscal year were as follows:

Key revenue drivers	2009	2008
Park attendance (in millions)	4.6	4.5
Hotel occupancy (percentage)	70%	78%
	Percentage change from 2008 to 2009	
Year-on-year change for key revenue drivers		
Park attendance	2%	
Per capita guest spending	(1%)	
Available room nights	2%	
Per room guest spending	8%	
	2009	2008
Origin of visitors as a percentage of total attendance		
Local	41%	40%
Mainland China	36%	34%
International	23%	26%

Key financial results for the fiscal year were as follows:

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
(in millions)	HK\$	HK\$	HK\$
Revenues	2,541	2,568	(27)
Costs and expenses	2,611	2,729	(118)
Earnings / (Loss) before interest, taxes, depreciation and amortisation	(70)	(161)	91
Depreciation and amortisation	858	808	50
Net finance costs	387	605	(218)
NET PROFIT / (LOSS)	(1,315)	(1,574)	259
Non-current assets	13,937	14,475	(538)
Current assets	577	874	(297)
Current liabilities	(1,009)	(3,932)	2,923
Non-current liabilities	(4,063)	(6,811)	2,748
SHAREHOLDERS' EQUITY	9,442	4,606	4,836

With a year-end date on the Saturday closest to, if not on, 30th 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 2009 was a 53-week year ending on 3rd October 2009; fiscal 2008 was a 52-week year ending on 27th September 2008.

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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 2009, total revenues decreased 1% or HK\$27 million to HK\$2,541 million, driven by the unfavorable impact of the H1N1 outbreak on attendance and hotel occupancy in the latter portion of the year. Prior to the outbreak in May 2009, revenues were trending high single digits above the comparable period in fiscal 2008.

Costs and expenses

Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The decrease of 4% or HK\$118 million to HK\$2,611 million for fiscal 2009 was attributable to savings from cost mitigation activities which were implemented throughout the year and expanded further during the post-H1N1 period.

Net finance costs

Net finance costs consist of interest expenses and other borrowing costs, net of interest income. The decrease of 36% or HK\$218 million from fiscal 2008 to HK\$387 million in fiscal 2009 was attributable to lower effective interest rates applicable to the outstanding loan balances and the conversion of loans from shareholders to ordinary shares as a result of the capital realignment during the year (See FINANCIAL LIQUIDITY section for more details).

Net Profit / (Loss)

Net loss for the year decreased 16%, or HK\$259 million, to HK\$1,315 million. This was mainly attributable to savings in finance and operating costs.

Non-current assets

Non-current assets mainly include property, plant and equipment and the leasehold land. Non-current assets decreased 4%, or HK\$538 million, to HK\$13,937 million mainly due to depreciation and amortisation charges, partially offset by the addition of assets during the year.

Current liabilities

Included in current liabilities for fiscal 2008 was a short-term borrowing composed of a secured term loan and a revolving loan that matured on 30th September 2008. On 29th September 2008, HKDL entered into a loan facility agreement with TWDC (the "TWDC loan") to finance the repayment of the short-term borrowing and to provide working capital to meet HKDL's financial and operational needs. On 2nd October 2008, HKDL drew from the TWDC loan to repay the short-term borrowing in full. The decrease in current liabilities of 74%, or HK\$2,923 million, to HK\$1,009 million was mainly due to repayment of the short-term borrowing (See FINANCIAL LIQUIDITY section for more details).

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 40%, or HK\$2,748 million, to HK\$4,063 million was mainly attributable to the conversion of a portion of this loan into ordinary shares as part of the 2009 capital realignment (See FINANCIAL LIQUIDITY section for more details).

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FINANCIAL LIQUIDITY

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

(in millions)	2009 HK\$	2008 HK\$	Variance HK\$
Cash provided / (used) by:			
Operating activities	(58)	(262)	204
Investing activities	(316)	(344)	28
Financing activities	111	669	(558)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(263)	63	

HKDL's cash and cash equivalents as at the end of fiscal 2009 decreased by 40%, or HK\$263 million, from HK\$652 million in fiscal 2008 to HK\$389 million. The decrease was mainly related to the cash used in investing activities for capital spending, including those related to the expansion plan, partially offset by financing cash flow activities. The major financing activities included the full repayment of the short-term borrowing at the beginning of fiscal 2009, which was financed by the TWDC loans of HK\$2,963 million, a HK\$200 million repayment of the TWDC loans during the year, and TWDC's subsequent injection of HK\$311 million in additional capital in the fourth quarter of fiscal 2009 to start funding the expansion plan. The capital injection from TWDC was accompanied by a concurrent conversion of an equivalent amount of the HKSAR loan into ordinary shares.

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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.