

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2016

KEY HIGHLIGHTS

1. Hong Kong Disneyland (“HKDL”) continues to play a pivotal role in making Hong Kong a top family-friendly tourist destination in Asia. The resort has received more than 64 million guests since its opening in September 2005, including 6.1 million in fiscal 2016.
2. During fiscal 2016, HKDL faced headwinds from continued softness in the overall Hong Kong travel and leisure market as well as the unfavourable comparison against fiscal 2015, which benefited from an additional week of operations (“Fiscal Period Impact”).¹ Consequently, compared to prior year, attendance decreased 11%, revenues decreased 7% to HK\$4.8 billion, and the net loss was HK\$171 million. Excluding the Fiscal Period Impact, attendance and revenues were down by 9% and 5% respectively.
3. Despite challenging market conditions, HKDL is encouraged by its improved performance during the second half of fiscal 2016. Compared to the first half of the year, the year-over-year attendance decline eased and hotel occupancy improved in the second half of the year. Performance benefited from the June 2016 launch of “*Star Wars: Tomorrowland Takeover*”, which has been popular with guests of all ages, as well as marketing and sales initiatives.
4. Full year attendance from international guests increased to its second-highest level ever, illustrating the resort’s strength to attract tourism throughout Asia. Additionally, HKDL achieved record high per capita spending at the park, marking seven consecutive years of growth.
5. HKDL’s improvement has continued into fiscal 2017, with first quarter financial results above the prior-year period. In January 2017, during the second fiscal quarter, the resort launched “Iron Man Experience”, Disney Parks’ first Marvel-themed ride, and it has been very well received by guests. The attraction helped boost Chinese New Year Holiday attendance 13% above the prior-year period, with growth in local, Guangdong and international guests, and hotel occupancy to a near-full level of 97%. To continue to drive visitation and broaden HKDL’s appeal, the resort will also open the 750-room Disney Explorers Lodge on 30th April 2017.

¹ Year-end date is on the Saturday closest to, if not on, 30th September. Fiscal 2016 was a 52-week year ended on 1st October 2016 while fiscal 2015 was a 53-week year ended on 3rd October 2015.

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6. In November 2016, the resort announced plans for a HK\$10.9 billion multi-year expansion and development plan that leverages some of the most successful franchises of The Walt Disney Company (“TWDC”) and is designed to further reinforce HKDL’s position as a world-class tourism destination. The Government of the Hong Kong Special Administrative Region (“HKSARG”) is in the process of obtaining funding approval for HKSARG’s contribution to the plan.

BUSINESS OVERVIEW

7. 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 HKSARG and TWDC, and is managed by Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. At the end of fiscal 2016, HKSARG owned a 53% majority interest in HKITP, with TWDC owning the remaining 47%.
8. The theme park consists of the following themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street U.S.A., Mystic Point, 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 nighttime fireworks extravaganza.
9. HKDL has two themed hotels: the 400-room Hong Kong Disneyland Hotel and the 600-room Disney’s Hollywood Hotel.

OPERATIONAL HIGHLIGHTS

10. Since its grand opening in 2005, HKDL has continued to solidify its position as a premier leisure and vacation destination in Asia. As one of the most popular destinations in Hong Kong, HKDL has all along been playing a pivotal role in reinforcing Hong Kong’s position as one of the world’s top cities for tourists and business visitors.
11. During the fiscal year, HKDL continued to introduce new guest offerings to create excitement and boost visitation interest among guests from Hong Kong, mainland China, Southeast Asia and other international markets. The resort continued to launch entertainment experiences based on Disney’s beloved

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franchises and characters, and extended its market reach to existing and new consumer segments with enhanced marketing and sales strategies:

- a) *Celebrating the 10th Anniversary with new attractions and entertainment:* Launched in November 2015, the year-long “Happily Ever After” celebration included the debut of “Mickey and the Wondrous Book” stage show, the “Fairy Tale Forest” walkthrough attraction and the Castle video projections that enhanced the “Disney in the Stars” fireworks spectacular.
- b) *Leveraging Disney’s intellectual property:* Introduced “*Star Wars: Tomorrowland Takeover*”, which includes a number of immersive experiences such as “Hyperspace Mountain”, the “Jedi Training: Trails of the Temple” show and character greetings. The resort also rolled out a new guest offering based on the Disney animated film *Big Hero 6* and leveraged villains from numerous Disney stories to launch “Disney Halloween Time” as a refresh of its existing Halloween event. In Summer 2016, HKDL premiered “My Journeys with Duffy”, which immerses guests in the world of the Disney Bears with Duffy-themed merchandise and the introduction of Duffy’s new friend, Gelatoni.
- c) *Broadening market reach and awareness:* Staged promotional shows in a number of shopping malls across potential growth markets in mainland China to boost brand affinity and drive sales. Special media briefings in core Guangdong cities were also held to raise product awareness. To drive further visitation and leverage the Hong Kong Tourism Board’s “Matching Fund for Overseas Tourism Promotion by Tourist Attractions” initiative, rolled out 22 joint promotions with trade partners and other local attractions in various targeted overseas markets, such as the Philippines, Malaysia and South Korea. HKDL continued to reinforce sales channels through collaboration with trade partners in mainland China and other markets to drive sales at 17 travel fairs in Taiwan, South Korea and Southeast Asia markets, capturing new and high value-added consumers.
- d) *Maximising digital potential and opening up new products:* Launched the first official HKDL WeChat account in December 2015 to better connect with guests and boost online sales. The resort introduced its first official mobile app in mid-2016 to provide guests with instant information and one-stop services such as dining reservations, show schedules and wait-times for attractions. The resort also developed six dedicated webpages

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for regional online travel agent partners and maximised publicity via live social media broadcasts, as well as dedicated video platforms for travel agencies to share HKDL's products.

- e) *Strengthening trade engagement:* HKDL hosted the 10th Anniversary Travel Trade Summit with participation from about 300 travel trade and business partners over a two-day period. About 20 trade briefings were conducted with more than 2,000 trade partners, covering major markets including Thailand, Taiwan, Indonesia, Malaysia and mainland China. HKDL also took part in the "Hong Kong • Live in Bangkok" consumer event organised by the Hong Kong Tourism Board to promote the "Iron Man Experience" with special HKDL sales packages.

12. The resort is committed to Hong Kong and the communities it serves. HKDL welcomed more than 100,000 underprivileged community members to visit the park through community-focused projects. The resort also contributed over 8,000 hours of skills and services through its Disney VoluntEARS programme. To further encourage volunteerism, HKDL has deepened the "Give a Day, Get a Disney Day" programme in partnership with the Agency for Volunteers Services to encourage the public to volunteer. The programme has ultimately led to more than 8 million hours of service since its inauguration in 2010. Other community highlights from fiscal 2016 include:

- a) *Championing diversity and inclusion:* HKDL fully supported the Committee on Home-School Co-operation to launch the "We Did It!" Award Scheme. This campaign aims to recognise improvements in students at special schools, the hard work of their teachers and caretakers and encourage the spirit of sharing love. In addition, HKDL officially rolled out a new hotel housekeeping training programme for people with disabilities. By partnering with a non-government vocational training centre, the resort sponsored the installation of a mock-up guest room to train programme educators, as well as assist them in obtaining accreditation for the programme. Furthermore, for ten consecutive years, HKDL has partnered with the Labour Department, the Social Welfare Department, the Hong Kong Council of Social Service and 40 non-government organisations to offer its annual apprenticeship programme for people with disabilities. The resort employed around 100 people with disabilities during the fiscal year. HKDL also participated in the Government's Talent-Wise Employment Scheme, which champions an inclusive, disabled-friendly workplace.

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- b) *Empowering young minds to create and pursue self-esteem:* Sponsored “YOUth Power”, a new programme in Sham Shui Po promoting sports and creativity among the disadvantaged children in the community. The sixth annual Disney ImagiNations Competition was held for students to apply Disney’s design principles to meet creative challenges. In collaboration with the Hong Kong Federation of Youth Groups, the Disney Friends for Change Youth Grants funded 50 creative projects from kids and young adults to encourage community service among their peers. These programmes benefited more than 700 children and youths during the fiscal year.
 - c) *Nurturing theme park and tourism expertise:* Continued to offer the first-of-its-kind two-year full time Higher Diploma Programme in Resort and Theme Park Management by partnering with the Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong. Accredited and registered under the Qualifications Framework, the programme offered each student 400 hours of paid training at the park as interns and the resort’s leadership team contributed lecturing hours at the institute. In addition, HKDL continued to sponsor local students through scholarships and internships for students from the Hong Kong Academy for Performing Arts and local higher education institutions.
 - d) *Connecting with the community:* Held the inaugural Hong Kong Disneyland 10K Weekend run to promote health-enhancing outdoor activities. Around 9,000 runners enrolled and were cheered on by Mickey and Friends in the park. Since 2013, HKDL has partnered with a local charity organisation, Foodlink, to donate more than 56,000 meals to the families in the community. The resort also continued to support Community Built Playground to foster family bonding and the Hospital Play programme for sick children through a partnership with non-profit Playright Children’s Play Association.
13. On average, HKDL employed more than 5,000 full-time and 2,300 part-time staff during the year, making the resort one of Hong Kong’s largest employers. HKDL is committed to developing a highly skilled and quality labour force, providing them more than 300,000 hours of professional and technical training during the fiscal year.

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14. HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2016, 93% of theme park guests and 91% of hotel guests reported that their overall experience was “excellent”, “very good” or “good”.
15. HKDL received 79 awards during the fiscal year in recognition of its design, technical achievements, guest service, family appeal, and commitment to the community and the environment. These include a number of corporate citizenship awards from local government, the Hong Kong Productivity Council and community partners. HKDL received the Asia Best Employer Brand Awards for the fourth consecutive year and the “Employer of Choice Award” from JobMarket for the third consecutive year. HKDL was also honoured with the “Reader’s Choice Awards 2015 – Best Theme Park (Asia Pacific)” from Travel Weekly Asia.

THEME PARK EXPANSION

16. In 2016, the shareholders of HKITP reached an in-principle agreement on a HK\$10.9 billion expansion and development plan of HKDL. The plan is still subject to approval from the Legislative Council of Hong Kong for HKSARG’s share of the investment.
17. The proposed expansion and development plan is comprised of two new themed areas featuring Marvel and “Frozen”, a transformed castle with two entirely new daytime and nighttime shows, and new experiences in Adventureland. At least one new attraction or entertainment offering will debut almost every year from 2018 to 2023, subject to the timing of the Legislative Council’s funding approval.
18. This multi-year transformation is expected to not only contribute further to the significant appeal of HKDL as a global tourist destination, but also bring direct economic benefits to Hong Kong by providing 3,450 man-years construction and related jobs in the near-term and additional 600 resort-based employment positions once the expansion and development plan is complete.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

19. For the fiscal year ended 1st October 2016, HKDL generated revenues of HK\$4.8 billion, representing a 7% decrease from prior year, with a net loss of HK\$171 million. Performance was impacted by continued challenges with the

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tourism landscape in Hong Kong, including the decline in mainland China visitor arrivals to Hong Kong, as well as the unfavourability from the Fiscal Period Impact. Excluding the Fiscal Period Impact, revenues were down by 5%.

20. Park attendance of 6.1 million was down 11%, or 9% excluding the Fiscal Period Impact, with fewer guests from mainland China, partially offset by higher visitation from international markets as a result of successful marketing and sales initiatives. HKDL grew per capita spending in its park for the seventh consecutive year, establishing a new record. At the hotels, occupancy was flat to prior year at 79%, with per room guest spending below prior year, consistent with trends in the overall Hong Kong market.
21. Despite challenging market conditions, HKDL began to show signs of recovery during the second half of fiscal 2016. Compared to the first half of the year, the year-over-year attendance decline eased and hotel occupancy improved in the second half of the year.

Key revenue drivers for the fiscal year were as follows:

	2016	2015
Park attendance (in millions)	6.1	6.8
Hotel occupancy (percentage)	79%	79%

Year-on-year change for key revenue drivers	Percentage change	
	2016	2015
Park attendance	(11%)	(9%)
Per capita spending	4%	3%
Available room nights	(2%)	4%
Per room guest spending	(7%)	7%

Origin of visitors as a percentage of total attendance	2016	2015
	Local	39%
Mainland China	36%	41%
International	25%	20%

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Key financial results for the fiscal year were as follows:

	2016	2015	Variance
(in HK\$ millions)			
Revenues	4,750	5,114	(364)
Costs and expenses	4,035	4,309	(274)
Earnings before interest, taxes, depreciation and amortisation	715	805	(90)
Depreciation and amortisation	890	956	(66)
Net finance income	(4)	(3)	(1)
NET LOSS	(171)	(148)	(23)
Non-current assets	18,788	16,707	2,081
Current assets	1,869	1,556	313
Current liabilities	(1,951)	(1,782)	(169)
Non-current liabilities	(1,983)	(1,327)	(656)
SHAREHOLDERS' EQUITY	16,723	15,154	1,569

Revenues

22. 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 charges for room nights at the hotels. For fiscal 2016, total revenues decreased by 7%, or HK\$364 million, to HK\$4,750 million, reflecting lower park attendance and the Fiscal Period Impact. Excluding the Fiscal Period Impact, revenues declined 5%.

Costs and expenses

23. Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The decrease of 6%, or HK\$274 million, to HK\$4,035 million for fiscal 2016 was attributable to efficiency and cost management efforts and the favorable Fiscal Period Impact. These decreases were partially offset by higher operating and support costs mainly due to cost escalation, and increased spending for new guest offerings such as “Mickey and the Wondrous Book” and “*Star Wars: Tomorrowland Takeover*”.

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Depreciation and amortisation

24. Depreciation and amortisation decreased by 7%, or HK\$66 million, to HK\$890 million mainly due to full depreciation of those assets with a 10-year life, partly offset by the addition of new assets completed during the fiscal year such as “Fairy Tale Forest”, “Mickey and the Wondrous Book” and “*Star Wars: Tomorrowland Takeover*”.

Net finance income

25. Net finance income consists of interest income, net of interest expense. The increase of 33% or HK\$1 million to HK\$4 million for fiscal 2016 reflected the complete capitalisation of interest expenses from HKDL’s borrowings due to the construction of the “Iron Man Experience” and Disney Explorers Lodge.

Net loss

26. HKDL had a net loss of HK\$171 million in fiscal 2016, which grew by 16% or HK\$23 million compared to the prior year. This was largely attributable to the revenue decline partially offset by lower operating and support costs and decreased depreciation and amortisation expenses.

Non-current assets

27. Non-current assets include property, plant and equipment, leasehold land and projects in progress. Non-current assets increased by 12%, or HK\$2,081 million, to HK\$18,788 million mainly due to construction spending on the “Iron Man Experience” and Disney Explorers Lodge, partially offset by the depreciation and amortisation charges during the year.

Current assets

28. Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The increase of 20%, or HK\$313 million, from \$1,556 million in fiscal 2015 to HK\$1,869 million in fiscal 2016 was mainly attributable to a net increase in cash during the year. (See FINANCIAL LIQUIDITY section for more details)

Current liabilities

29. Current liabilities consist of trade and other payables and deferred revenues. The increase in current liabilities of 9%, or HK\$169 million, to HK\$1,951 million was primarily due to increased payables for capital project spending mainly related to the development of the “Iron Man Experience” and Disney Explorers Lodge.

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Non-current liabilities

30. Non-current liabilities include long-term borrowings and retirement plan liabilities. The balance primarily represents the unsecured long-term loans from HKSARG and TWDC, which are repayable by instalments on dates through fiscal 2025. The increase in non-current liabilities of 49%, or HK\$656 million, to HK\$1,983 million was primarily attributable to the drawdown of the new shareholders' loans for the financing of Disney Explorers Lodge, partially offset by the conversion of a portion of a loan from HKSARG into ordinary shares.

FINANCIAL LIQUIDITY

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

	2016	2015	Variance
(in HK\$ millions)			
Cash provided / (used) by:			
Operating activities	879	741	138
Investing activities	(2,913)	(1,840)	(1,073)
Financing activities	2,366	827	1,539
NET INCREASE/(DECREASE)			
IN CASH AND CASH EQUIVALENTS	332	(272)	604

31. Cash and cash equivalents increased by 27%, or HK\$332 million, to HK\$1,544 million at the end of fiscal 2016. The increase was primarily attributable to the new shareholders' loans of HK\$1,493 million and TWDC's capital injection of HK\$873 million and net cash generated from operating activities. This increase was partially offset by investing activities in fiscal 2016 which primarily includes Disney Explorers Lodge and the "Iron Man Experience".

32. TWDC received ordinary shares of HKITP in exchange for its capital contribution, and an equivalent amount of the HKSARG-provided loan was converted into ordinary shares.

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DISCLAIMER

This Annual Business Review has been prepared for information purposes only.

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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.