

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2013

KEY HIGHLIGHTS

- Hong Kong Disneyland (“HKDL”) once again delivered record attendance, occupancy and guest spending in fiscal 2013¹.
- The resort generated record revenues of HK\$4,896 million, up 15% from prior year, and more than doubled net profit to a record HK\$242 million.
- The successful opening of Mystic Point on 17th May 2013 marked the completion of the 2009 theme park expansion plan, which increased the park’s total size by about one-fourth and brings the total number of attractions and entertainment offerings to more than 100.
- HKDL remains committed to growing its business and establishing its brand as the premier vacation, entertainment and convention resort destination in the region. The resort plans to launch a brand new nighttime spectacular called “Disney Paint the Night” in 2014, a new themed area based on Marvel’s Iron Man franchise in late 2016 and a new 750-room resort-style hotel by early 2017.

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 the Hong Kong Special Administrative Region (“HKSARG”) and The Walt Disney Company (“TWDC”), and is managed by Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. As at end of 2013, HKSARG owns a 52% majority interest in HKITP, with TWDC owning the remaining 48%.

The theme park consists of the following themed lands and areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, 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 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

- Since its grand opening in 2005, HKDL has focused on being the premier vacation, entertainment and convention resort destination in Hong Kong. As one of the most popular paid destinations in Hong Kong, HKDL is an integral component in supporting Hong Kong’s position as one of the world’s top cities for leisure tourists and business visitors.
- The opening of Mystic Point in May 2013 marked the completion of the 2009 theme park expansion plan, which also included the addition of two other themed areas (Toy Story Land and Grizzly Gulch), and further enhanced guest experience. Located at Mystic Point, Mystic Manor is an immersive indoor attraction using an innovative trackless vehicle ride system and has quickly become one of guests’ favorite attractions at HKDL. Mystic Manor has been honored by the Themed Entertainment Association with the coveted Thea Award for Outstanding Achievement – Attraction for the seamless integration of the latest technology with true state-of-the-art storytelling.

¹ The fiscal year is from October to September and ends on the Saturday closest to 30th September of each year.

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2013

- HKDL also generated excitement and ongoing visitation interest among guests from local, mainland China and Southeast Asia regions by offering the following key events and programmes throughout the fiscal year:
 - held an expanded version of the annual “Disney’s Haunted Halloween” event at the beginning of fiscal 2013, which featured limited-time offerings in each themed land and was supported by “Choose Your Dark Side Challenge” – a mobile game app that utilised augmented reality technology to extend the experience beyond the park and engage young adults across Hong Kong. This interactive marketing campaign was well-recognized by the marketing business community with more than 10 awards and merits received so far;
 - celebrated the December holiday season with “Disney’s Sparkling Christmas” event, introducing a new Christmas tree display in addition to the popular Christmas illumination show;
 - offered the “Golden Chinese New Year Celebration” to commemorate the Year of the Snake in February 2013, integrating both traditional Chinese and Disney entertainment elements, a yearly strategy which continued to drive HKDL’s reach among Guangdong arrivals during the event period;
 - continued the successful “Star Guest Program” which offered guests throughout the spring season a variety of “Magical Moments” and “Star Experiences”, including the popular “Star Princess Tour” and a brand new “MonSTAR Tour” based on Disney•Pixar’s Monsters, Inc. franchise; and
 - in conjunction with the summer 2013 release of the film *Monsters University* in Hong Kong, introduced an interactive photo-taking experience that brought guests a flavor of campus life from the movie.
- In addition to its strategy to grow the business, HKDL remains committed to contributing to Hong Kong and the communities HKDL serves. This past year, HKDL welcomed over 100,000 underprivileged community members to visit the park; contributed close to 8,500 hours of skills and services through its Disney VolunTEARS programme, directly reaching 130,000 recipients; and in collaboration with the Agency of Volunteers Services, HKDL inspired 480,000 hours of volunteer service in the community through “Give a Day. Get a Disney Day.” Other highlights in fiscal 2013 include:
 - *Realizing the potential of local students*: Placed more than 300 internships from local higher educational institutions, including universities and the Hong Kong Institute of Vocational Education, throughout the year to promote talent for the tourism industry; and supported the Education Bureau’s Committee on Home-School Co-operation by creating the “I Did It!” award that recognizes one student at each primary school class across Hong Kong who had made the most improvement over the school year.
 - *Promoting creativity and family-bonding through play*: Introduced the third cycle of Disney ImagiNations Hong Kong, a theme park design competition to nurture design, engineering and architecture talents for the industry; partnered with the local non-profit organisation Playright Children’s Play Association, resulting in over 120 specifically-trained VolunTEARS visiting hospital pediatric wards across Hong Kong to help children and their families better manage illness; and introduced the first Community Built Playground in Hong Kong, involving 1,500 family participants using natural materials and their imaginations to create temporary playgrounds at Inspiration Lake on Lantau Island.

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2013

- *Connecting kids to nature:* Through “Adopt-a-Garden”, a programme in partnership with Jane Goodall’s Roots & Shoots, our VoluntEARS developed organic gardens at four schools, including two special schools, one village school and one school focused on educating ethnic minority students.
- *Fostering diversity and inclusion:* Increased the number of participants in the Apprentice Programme for People with Disabilities by 50% from fiscal 2012, bringing the total number of disabled individuals employed during the fiscal year to more than 100. HKDL’s apprenticeship programme, which was developed in 2007 in partnership with the Labour Department, Social Welfare Department, the Hong Kong Council of Social Service and 22 non-government organisations, supports the employment of the disabled community by providing structured classroom and on-the-job training. During the year, HKDL also participated in the Government’s Talent-Wise Employment Scheme.
- On average, HKDL employed more than 4,800 full-time and 2,600 part-time staff during this fiscal year, making the resort one of Hong Kong’s largest employers in the entertainment industry. HKDL is committed to developing a highly skilled and quality workforce, providing over 380,000 hours of professional and technical training to the entire workforce during the year.
- HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2013, 92% of theme park guests and 89% of hotel guests reported that their overall experience was “excellent”, “very good”, or “good”.
- Since opening, HKDL has received 271 awards in recognition of its design, technical achievements, distinctive guest service, commitment to the community and environment and high family appeal. HKDL received a total of 61 awards in fiscal 2013, including Best Theme Attraction at the 24th Annual TTG Travel Awards, the Pacific Asia Travel Association Gold Award 2013 in the Marketing Industry category, the Best Theme Park of the Year from China Travel and Meetings Industry Awards, the 4th Asia’s Best Employer Brand Award presented by Employer Branding Institute, and the 2013 Randstad Award for Best Workplace Culture in Hong Kong.

THEME PARK AND HOTEL EXPANSION

Mystic Point, opened on 17th May 2013, marked the completion of the 2009 theme park expansion plan. The other themed areas, Toy Story Land and Grizzly Gulch, came online in November 2011 and July 2012, respectively.

In October 2013, HKDL announced its plan to open a new themed area at the park based on Marvel’s Iron Man franchise in late 2016. The key attraction, Iron Man Experience, will take guests on an adventure of a lifetime as they join Tony Stark in a battle against alien invaders across the city of Hong Kong.

HKDL also has plans to open a new 750-room Disney-branded hotel by early 2017, pending all necessary project approvals. Dedicated to the spirit of exploration, the new hotel will offer an immersive resort-style accommodation experience for guests.

The addition of these park and hotel experiences not only contributes further to the significant appeal of HKDL as a tourist destination, but also adds to the economic benefits HKDL brings to Hong Kong, through generating additional resort-based employment positions as well as construction and other jobs related to the build-out of the park.

**HONG KONG DISNEYLAND
ANNUAL BUSINESS REVIEW
FOR THE FISCAL YEAR 2013**

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

For the fiscal year ended 28th September 2013, HKDL achieved record attendance, hotel occupancy and per capita and per room guest spending. With growth in all guest origins including mainland China, local and international markets, attendance reached 7.4 million, representing a 10% increase over prior year. This year-over-year increase in park visitation exceeded the level of growth in overnight leisure arrivals into Hong Kong during this period and reflected the resort's effective marketing and sales programmes and other factors. Hotel occupancy remained strong at 94%, two percentage points above prior year. Higher volumes and guest spending contributed to revenue growing by 15% to HK\$4,896 million and to HKDL's record net profit of HK\$242 million, an increase of HK\$133 million from prior year.

Key revenue drivers for the fiscal year were as follows:

Key revenue drivers	2013	2012
Park attendance (in millions)	7.4	6.7
Hotel occupancy (percentage)	94%	92%

Year-on-year change for key revenue drivers	Percentage change	
	2013	2012
Park attendance	10%	13%
Per capita guest spending	6%	6%
Available room nights	1%	(1%)
Per room guest spending	10%	15%

Origin of visitors as a percentage of total attendance	2013	2012
Local	33%	33%
Mainland China	47%	45%
International	20%	22%

Key financial results for the fiscal year were as follows:

(in HK\$ millions)	2013	2012	Variance
Revenues	4,896	4,272	624
Costs and expenses	3,783	3,396	387
Earnings before interest, taxes, depreciation and amortisation	1,113	876	237
Depreciation and amortisation	838	762	76
Net finance costs	33	5	28
NET PROFIT	242	109	133
Non-current assets	15,340	15,375	(35)
Current assets	1,578	1,153	425
Current liabilities	(1,478)	(1,307)	(171)
Non-current liabilities	(2,062)	(2,097)	35
SHAREHOLDERS' EQUITY	13,378	13,124	254

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2013

Revenues

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 room nights at the hotels. For fiscal 2013, total revenues increased by 15%, or HK\$624 million, to HK\$4,896 million, primarily driven by increased park attendance and by 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 11%, or HK\$387 million, to HK\$3,783 million for fiscal 2013 was attributable to higher volume-related operating and support costs with the completion of the 2009 theme park expansion plan and higher attendance.

Depreciation and amortisation

Depreciation and amortisation increased by 10%, or HK\$76 million, to HK\$838 million mainly due to the addition of property, plant and equipment related to the newly launched themed areas.

Net finance costs

Net finance costs consist of interest expense, net of interest income. The increase of HK\$28 million, from fiscal 2012 to HK\$33 million in fiscal 2013, reflected a decrease in interest capitalized after the completion of expansion projects.

Net Profit

Net profit for the year increased HK\$133 million to HK\$242 million. This was largely attributable to revenue growth.

Non-current assets

Non-current assets include property, plant and equipment, leasehold land and projects in progress. Non-current assets decreased by 0.2%, or HK\$35 million, to HK\$15,340 million due to the depreciation and amortisation charges partially offset by the completion of expansion projects and addition of operational assets during the year.

Current assets

Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The increase of 37%, or HK\$425 million, from fiscal 2012 to HK\$1,578 million in fiscal 2013 was mainly attributable to a net increase in cash during the year. (See FINANCIAL LIQUIDITY section for more details)

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2013

Current liabilities

Current liabilities consist of trade and other payables and deferred revenues. The increase in current liabilities of 13%, or HK\$171 million, to HK\$1,478 million was primarily due to interest payable in fiscal 2014 on the unsecured long-term loan from HKSARG, increased payables in relation to promoting the launch of Mystic Point and higher deferred revenues related to advance theme park ticket sales.

Non-current liabilities

Non-current liabilities primarily represent the unsecured long-term loan from HKSARG, which is scheduled to mature in installments on dates through 2030. The decrease of 2%, or HK\$35 million, to HK\$2,062 million was primarily attributable to interest payable in fiscal 2014 on the unsecured long-term loan from HKSARG, partially offset by deferred interest expense during the year.

FINANCIAL LIQUIDITY

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

(in HK\$ millions)	2013	2012	Variance
Cash provided / (used) by:			
Operating activities	1,222	771	451
Investing activities	(880)	(1,302)	422
Financing activities	-	565	(565)
NET INCREASE			
IN CASH AND CASH EQUIVALENTS	342	34	

Cash and cash equivalents increased by 36%, or HK\$342 million, to HK\$1,283 million at the end of fiscal 2013. The increase was primarily attributable to net cash generated from operating activities driven by revenue growth. This increase in net cash was partially offset by cash used in investing activities, including expansion and other capital spending, in fiscal 2013.

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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.