

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2017

KEY HIGHLIGHTS

1. Hong Kong Disneyland (“HKDL”) continues to play a pivotal role in fostering the development of Hong Kong as a top family-friendly tourist destination in Asia.
2. In fiscal 2017¹, HKDL delivered growth in attendance, revenues and earnings before interest, taxes, depreciation and amortisation (“EBITDA”). Results were driven by continuous efforts to broaden the appeal of HKDL through new attractions and entertainment offerings, including the launch of “Iron Man Experience” and Disney Explorers Lodge.
3. The park received 6.2 million guests in fiscal 2017, up 3% from the prior year, and cumulatively more than 70 million guests since the park opened in 2005.
4. Park attendance from international guests increased by 5% to its highest annual level since opening, demonstrating HKDL’s continued strength to attract tourists from across Asia. Local park attendance grew by 6% to its second highest level ever. HKDL also achieved record high per capita spending at the park, marking eight consecutive years of growth.
5. Revenues increased by 8% to its second-highest level of HK\$5.1 billion. EBITDA grew by 28% to HK\$914 million, the third-highest level ever. Increased costs associated with the new “Iron Man Experience” attraction and the new resort hotel Disney Explorers Lodge, as well as depreciation related to the multi-year expansion and development plan of the park, resulted in a net loss of HK\$345 million for the year.
6. In October 2017, HKDL officially commenced construction on a multi-year expansion and development plan of the park which is expected to drive continued growth of HKDL and boost Hong Kong’s appeal to tourists from around the world by launching new attractions and entertainment offerings almost every year from 2018 to 2023. An all-new atmosphere stage show in Adventureland, “Moana: A Homecoming Celebration”, is set to launch in May 2018 as the first completed project under the multi-year expansion and development plan.

¹ Year-end date is on the Saturday closest to, if not on, 30th September. Fiscal 2017 was a 52-week year ended on 30th September 2017.

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BUSINESS OVERVIEW

7. HKDL develops and operates the Disney-branded theme park, themed resort hotels and an 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. At the end of fiscal 2017, HKSARG owned a 53% majority interest in HKITP, with TWDC owning the remaining 47%.
8. The theme park consists of the following seven 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 events.
9. HKDL has three themed resort hotels: the 750-room Disney Explorers Lodge, the 600-room Disney’s Hollywood Hotel and the 400-room Hong Kong Disneyland Hotel.

OPERATIONAL HIGHLIGHTS

10. During fiscal 2017, HKDL introduced new guest offerings to create excitement and boost visitation interest among guests from Hong Kong, Mainland China, Southeast Asia and other international markets. HKDL launched entertainment experiences based on some of Disney’s most beloved franchises and characters, and extended its market reach to existing and new consumer segments with enhanced marketing and sales strategies:
 - a) *Marvel momentum throughout the year*: Launched in January 2017, “Iron Man Experience”, the first Marvel-themed ride in any Disney park, broadened HKDL’s appeal to guests of all ages and genders and became the park’s most popular attraction in fiscal 2017, according to guest surveys. The presence of the Marvel franchise at HKDL expanded with the launch of the seasonal event “Marvel Super Hero Summer”, featuring fan-favourite characters such as Captain America, Thor, Spider-Man and Star-Lord for the first time together in Hong Kong to greet guests. The Marvel experience further extended to September

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2017 with characters cheering on a record-breaking 10 000 enrollees during the Marvel 10K Weekend running event. The event drew individual participants from the local market, Mainland China, Australia, Japan, Taiwan and Thailand, in addition to business groups.

- b) *A new milestone with Disney Explorers Lodge:* Launched in April 2017, the immersive Disney experience at the new hotel, Disney Explorers Lodge, has strengthened HKDL's position as a resort destination and attracted out-of-town guests visiting Hong Kong as well as local guests looking for a "staycation" experience. More than 90% of Disney Explorers Lodge guests surveyed indicated they had an enjoyable experience.
- c) *Sustained excitement leveraging Disney's intellectual property:* Introduced StellaLou, the newest friend of Duffy the Disney Bear, to further enrich the offerings of the popular "Duffy and Friends" franchise. "Duffy and Friends" merchandise is the second best-selling collection at HKDL after Mickey and Minnie assortments. In addition, HKDL leveraged Disney characters for limited-time celebrations, including Disney Villains at the "Disney Halloween Time" seasonal event and more than 100 characters at the "Disney Friends Springtime Carnival".
- d) *Multi-direction market outreach:* Collaborated with approximately 100 wholesalers and travel agents and organised 10 trade fairs in targeted Southeast Asia markets to drive sales, and offer travel packages featuring "Iron Man Experience" and Disney Explorers Lodge. Staged more than 20 road shows and mall events in eight key Guangdong markets in Mainland China, including Guangzhou University City, to further boost brand affinity. Partnered with the Hong Kong Tourism Board ("HKTB") to roll out a series of "Iron Man Experience" promotions in overseas markets. Through HKTB's "Matching Fund for Overseas Tourism Promotion by Tourist Attractions" scheme, HKDL hosted events with trade partners and local attractions in Mainland China, Australia, Indonesia, Japan, Malaysia, the Philippines, Taiwan and Thailand to drive visitation. Promotion initiatives were also extended to new market channels including cruises, ferries, airlines and trains.

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- e) *Intensive trade engagement*: Rolled out more than 70 trade briefings with the participation of more than 3 600 trade partners covering Mainland China and international markets such as India, Indonesia, South Korea and the Philippines. During the fiscal year, HKDL hosted special previews of “Iron Man Experience” and a special encounter with Iron Man for about 300 trade leaders, wholesalers, travel agents and tour guides.
 - f) *E-commerce and digital sales initiatives*: Created a new ticket sales platform at www.hongkongdisneyland.com that enhances product communication and has successfully boosted online sales. In addition, launched a newly developed paperless park ticket and digital fulfilment system to enhance the guest experience. The official HKDL Tmall and WeChat flagship stores continue to be very popular and drive robust sales in Mainland China. Since HKDL introduced its first official mobile app in mid-2016, new features have been added to keep guests connected with real-time information and one-stop services including character-greeting and stage show schedules, estimated waiting time for rides and special content for Magic Access (annual pass) members.
 - g) *Strong meetings, incentives, conventions and exhibitions sector (“MICE”) product development*: Hosted HKDL’s largest corporate park buyout event during Halloween with more than 25 000 participants in a single day. With additional room capacity provided by Disney Explorers Lodge, HKDL has an even greater opportunity to provide one-stop, tailor-made MICE events, with services that include hotel accommodation, use of the conference centre and meeting rooms, park visits and entertainment experiences.
11. In its 12th year of operations, HKDL remains committed to Hong Kong and the community it serves. In fiscal 2017, HKDL welcomed more than 100 000 underprivileged community members to visit the park by offering complimentary tickets through the Community Involvement Programme. In celebration of the multi-year expansion and development plan, HKDL launched a lucky draw of 50 000 complimentary tickets for Hong Kong residents. Other community highlights in fiscal 2017 include:
- a) *Encouraging volunteerism*: Fully supported the Committee on Home-School Co-operation through the “We Did It!” Award. This campaign aims to recognise Hong Kong’s secondary students who made remarkable contributions in volunteering. More than 5 600 students from 300 schools were commended with the award which was one of

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the accredited events celebrating the 20th anniversary of the establishment of the Hong Kong Special Administrative Region. In addition, HKDL further expanded the “Give a Day, Get a Disney Day” programme in partnership with the Agency for Volunteers Services, launching the new “Intergenerational Volunteering” initiative with the slogan “V-together” in support of family volunteering. “Give a Day, Get a Disney Day” generated an annual record of more than 3.2 million hours of volunteer services in 2017, and cumulatively more than 11 million hours of service since the programme began in 2010. The Disney VoluntEARS team contributed an additional 8 000 hours of skills and services in fiscal 2017.

- b) *Empowering young minds to craft creative solutions for community issues:* Organised “#SaveFoodGoViral Boot Camp”, a 48-hour social media campaign competition in partnership with Foodlink and the Hong Kong Federation of Youth Groups Jockey Club Media 21. Leveraging Disney’s funding, training and talent resources, the competition tasked 40 students with creating social media campaigns to promote food conservation. The seventh annual Disney ImagiNations Competition was held for students to apply Disney’s design principles to meet challenges. In collaboration with the Hong Kong Federation of Youth Groups, HKDL continued to offer the Disney Friends for Change Youth Grant and funded 35 youth-led creative projects to encourage community service. The program has served 18 000 beneficiaries since its launch in 2013.
- c) *Serving disadvantaged and hospitalised children:* Funded the two-year “All the Way with You - Cleft Lip and Palate Patients & Family Support Service” using proceeds from the Marvel 10K Weekend. HKDL has partnered with Foodlink since 2013 and offered more than 80 000 meals prepared by HKDL chefs using surplus ingredients to families in the community. HKDL launched a new program, “Play N Able”, through a partnership with non-profit Playright Children’s Play Association to help kids with special education needs. HKDL has also continued to support the Hospital Play programme to help sick children at Princess Margaret Hospital. In addition, HKDL assisted in redesigning and painting a children’s ward at the Pamela Youde Nethersole Eastern Hospital through the Disney VoluntEARS programme.

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- d) *Nurturing theme park and tourism expertise:* Hired 600 new staff for the new Disney Explorers Lodge through partnerships with various recruitment channels, including the Employees Retraining Board's "First-Hire-Then-Train" programme to develop talent. 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. In addition, HKDL continued to sponsor local students through 32 scholarships and offered over 250 internships for students from the Hong Kong Academy for Performing Arts, Vocational Training Centre and local higher education institutions.
- e) *Championing diversity and inclusion:* For 11 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. HKDL employed around 100 people with disabilities during fiscal 2017. HKDL also participated in the Government's Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme, which champions an inclusive, disabled-friendly workplace.
12. On average, HKDL employed more than 5 000 full-time and 2 000 part-time staff during the year, making it one of Hong Kong's largest employers in the tourism and family entertainment industry. HKDL is committed to developing a highly skilled and quality labour force, and provided them more than 400 000 hours of professional and technical training during fiscal 2017.
13. HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2017, 94% of theme park guests and 91% of hotel guests reported that their overall experience was "excellent", "very good" or "good".
14. HKDL received 113 awards during fiscal 2017 in recognition of its design, marketing excellence, guest service and commitment to the community and the environment. These include a number of corporate citizenship awards from local government and community partners. HKDL received the Gold Award for "Excellence in Print Advertising" for "*Star Wars: Tomorrowland Takeover*" at the Marketing Excellence Awards 2016. In addition, HKDL was honoured with the "Asia Best Employer Brand Award" for the fifth consecutive year and the "Employer of Choice Award" from JobMarket for the fourth consecutive year. HKDL also received the "Best

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Theme Attraction in China” from the Travel Trade Gazette China Travel Awards 2017.

MULTI-YEAR EXPANSION AND DEVELOPMENT PLAN

15. In October 2017, HKDL officially commenced construction on the multi-year expansion and development plan of the park, which is estimated to cost HK\$10.9 billion and is being funded by equity contributions made by HKSARG and TWDC on an equal basis.
16. The multi-year expansion and development plan will add a number of new guest offerings based on some of Disney’s most popular franchises, including two new themed areas featuring “Frozen” and Marvel, as well as a transformed castle with two entirely new daytime and nighttime shows. At least one new attraction or entertainment offering will debut almost every year through 2023, starting with the stage show “Moana: A Homecoming Celebration” in May 2018.
17. In addition to broadening the appeal of HKDL as a global tourist destination, this multi-year expansion and development plan is expected to bring direct economic benefits to Hong Kong by providing 3 450 man-years of construction and related jobs in the near-term and an additional 600 resort-based employment positions when the multi-year expansion and development plan is completed.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

18. For the fiscal year ended 30th September 2017, HKDL generated revenues of HK\$5,118 million, representing an 8% increase from the prior year and also the second-highest level ever. EBITDA reached its third-highest level at HK\$914 million, 28% above the prior year. Cost management efforts, increased occupied room nights at the resort hotels, higher park attendance and increased guest spending at the park contributed to the year-over-year growth.
19. At the park, full-year attendance increased by 3% to 6.2 million due to growth in both local and international origins. Local attendance was at its second-highest level since the park opened in 2005, driven by new guest offerings and seasonal events, as well as the successful Magic Access programme. International attendance set a new record, attributable to

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robust performance from Japan, South Korea, the Philippines and Indonesia. In addition, per capita spending in the park grew for the eighth consecutive year and set a new record.

20. At the resort hotels, available room nights increased by 32% due to the opening of the 750-room Disney Explorers Lodge in April 2017. Occupied room nights increased by 16% reflecting the increase in inventory created by Disney Explorers Lodge. However, with the intensified market competition and the considerable increase in hotel room inventory, hotel occupancy reduced to 69%, 10 percentage points below the prior year.
21. Increased costs associated with the major new offerings launched in fiscal 2017, namely the “Iron Man Experience” attraction and the resort hotel Disney Explorers Lodge, and depreciation related to retiring certain assets for the multi-year expansion and development plan contributed to a net loss of HK\$345 million for the fiscal year.

Key revenue drivers for the fiscal year were as follows:

	2017	2016
Park attendance (in millions)	6.2	6.1
Hotel occupancy (percentage)	69%	79%
Year-on-year change for key revenue drivers	Percentage change	
	2017	2016
Park attendance	3%	(11%)
Per capita spending	4%	4%
Available room nights	32%	(2%)
Per room guest spending	(3%)	(7%)
Origin of visitors as a percentage of total attendance	2017	2016
Local	41%	39%
Mainland China	34%	36%
International	25%	25%

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Key financial results for the fiscal year were as follows:

	2017	2016	Variance
(in HK\$ millions)			
Revenues	5,118	4,750	368
Costs and expenses	4,204	4,035	169
Earnings before interest, taxes, depreciation and amortisation	914	715	199
Depreciation and amortisation	1,242	890	352
Net finance cost / (income)	17	(4)	21
NET LOSS	(345)	(171)	(174)
Current assets	1,448	1,869	(421)
Non-current assets	19,487	18,788	699
Current liabilities	(1,987)	(1,951)	(36)
Non-current liabilities	(2,302)	(1,983)	(319)
SHAREHOLDERS' EQUITY	16,646	16,723	(77)

Revenues

22. HKDL generates revenues predominantly from the sale of admissions to the theme park, room nights at the hotels and merchandise, food and beverage at the theme park and hotels. For fiscal 2017, total revenues increased by 8%, or HK\$368 million, to HK\$5,118 million, reflecting an increase in hotel room nights sold, park attendance and guest spending at the park.

Costs and expenses

23. Costs and expenses consist principally of labour, operating and support costs, costs of sales, and marketing and sales expenses. The increase of 4%, or HK\$169 million, to HK\$4,204 million for fiscal 2017 was attributable to costs in support of new guest offerings, namely “Iron Man Experience” and Disney Explorers Lodge, and cost inflation. This increase was partially offset by efficiency and cost management efforts.

Depreciation and amortisation

24. Depreciation and amortisation increased by 40%, or HK\$352 million, to HK\$1,242 million mainly due to the addition of two major assets during the fiscal year, “Iron Man Experience” and Disney Explorers Lodge, and increased depreciation related to retiring certain assets for the multi-year expansion and development plan.

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Net finance cost

25. Net finance cost consists of interest expense, net of interest income. The increase in net finance costs of HK\$21 million compared with the prior year to HK\$17 million reflected lower interest expense capitalised upon the completion and launch of capital projects such as “Iron Man Experience” and Disney Explorers Lodge.

Net loss

26. HKDL had a net loss of HK\$345 million in fiscal 2017, which is an increase of HK\$174 million compared to the prior year mainly due to higher depreciation expense (see “Depreciation and amortisation” section above for more details), partially offset by increased EBITDA.

Current assets

27. Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The decrease of 23%, or HK\$421 million, to HK\$1,448 million in fiscal 2017 was mainly attributable to a net decrease in cash during the year. (See “FINANCIAL LIQUIDITY” section below for more details)

Non-current assets

28. Non-current assets include property, plant and equipment, leased land and projects in progress. Non-current assets increased by 4%, or HK\$699 million, to HK\$19,487 million mainly due to additional construction in the year on “Iron Man Experience” and Disney Explorers Lodge, partially offset by the depreciation and amortisation charges.

Current liabilities

29. Current liabilities consist of trade and other payables and deferred revenues. The increase in current liabilities of 2%, or HK\$36 million, to HK\$1,987 million was primarily due to higher deferred revenues related to advance theme park ticket sales.

Non-current liabilities

30. 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 in non-current liabilities of 16%, or HK\$319 million, to HK\$2,302 million was primarily related to the drawdown of the shareholders’ loans for financing the development of Disney Explorers Lodge.

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FINANCIAL LIQUIDITY

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

	2017	2016	Variance
(in HK\$ millions)			
Cash generated / (used) by:			
Operating activities	922	879	43
Investing activities	(1,866)	(2,913)	1,047
Financing activities	523	2,366	(1,843)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(421)	332	(753)

31. Cash and cash equivalents decreased 27%, or HK\$421 million, to HK\$1,123 million at the end of fiscal 2017. The decrease was primarily attributable to spending on capital projects, mainly Disney Explorers Lodge and “Iron Man Experience” during the year, partially offset by equity contributions from shareholders for the multi-year expansion and development plan and drawdown from shareholders’ loans for financing the development of Disney Explorers Lodge.

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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.