

HONG KONG DISNEYLAND ANNUAL BUSINESS REVIEW FOR THE FISCAL YEAR 2018

KEY HIGHLIGHTS

1. Hong Kong Disneyland Resort (“HKDL”) continues to play a pivotal role in fostering the development of Hong Kong as a top tourist destination for families and young adults in Asia.
2. In fiscal 2018¹, HKDL delivered record high revenue and earnings before interest, taxes, depreciation and amortisation (“EBITDA”). Revenue increased by 18% from the prior year to HK\$6.0 billion and EBITDA grew by 48% to HK\$1.4 billion. Net profit/(loss) improved by HK\$291 million over the prior year, reducing net loss by 84% to HK\$54 million.
3. At the theme park, attendance and per capita spending continued to grow. Attendance increased by 8% to 6.7 million guests in fiscal 2018, with visitation from the local and other markets segments setting new records and guests from Mainland China showing year-on-year increase. Growth in visitation was attributable to effective marketing and sales strategies, publicity efforts, new entertainment offerings and Magic Access annual pass promotion campaigns. Cumulatively, HKDL has welcomed more than 77 million guests since the park opened in 2005. Also, per capita spending at the park set another new record and grew by 6% year on-year and for the ninth consecutive year.
4. At the resort hotels, occupied room nights increased by 44%, reflecting the first full fiscal year of operations of the third hotel, Disney Explorers Lodge. Overall hotel occupancy increased by six percentage points year-on-year to 75%.
5. HKDL continues to expand with exciting new attractions and experiences under the park’s multiyear expansion and development plan. The first new offering, “Moana: A Homecoming Celebration” stage show, opened in May 2018. The next attraction, “Ant-Man and The Wasp: Nano Battle!”, will officially open on 31 March 2019. This new interactive experience is part of the continuous efforts to expand HKDL’s Marvel-themed area to an ultimate hub of exciting Marvel experiences in Asia, with the aim of strengthening the young adult guest base.

¹ Year-end date is on the Saturday closest to, if not on, 30th September. Fiscal 2018 was a 52-week year ended on 29th September 2018.

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BUSINESS OVERVIEW

6. HKDL develops and operates the 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 the Government of the Hong Kong Special Administrative Region (“HKSARG”) and The Walt Disney Company (“TWDC”). HKDL is managed by Hong Kong Disneyland Management Limited, which is wholly owned by TWDC. At the end of fiscal 2018, HKSARG owned a 53% majority interest in HKITP and TWDC owned the remaining 47%.
7. The theme park includes themed attractions, entertainment and interactive experiences, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and nighttime entertainment offerings.
8. There are three themed resort hotels at HKDL with a total of 1 750 guest rooms.

OPERATIONAL HIGHLIGHTS

9. During fiscal 2018, HKDL continued to strengthen its appeal to guests from Hong Kong, Mainland China, Southeast Asia and other key international markets. HKDL enticed visitation through new guest offerings and entertainment experiences based on some of Disney’s most beloved stories and characters, as well as broadened its reach through marketing, sales and publicity strategies. Key initiatives include:
 - a) *Targeted market promotions leveraging seasonal events throughout the year:* Under the banner of HKDL’s spring and summer entertainment offerings, “Carnivale of Stars”, a variety of marketing products tailored to different seasons and consumer markets to attract new and repeat visitors were introduced. Exclusive activities, such as “A Duffy and Friends Celebration” show and Disney Halloween preview night, successfully drew attendance from Magic Access members. Heightened affinity was achieved in overseas markets with particularly strong attendance growth of more than 30% from Japan and South Korea. Halloween and Christmas celebrations had strong appeal to young adults in Guangdong. Collaborations with online national platforms to promote festive events and tailored offers drove visitation from other parts of Mainland China.

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- b) *Strong growth in hotel business building on unique resort positioning:* Disney Explorers Lodge completed its first full fiscal year of operation, and has firmly reinforced HKDL's position as a resort destination. Hotel stay, dining and recreational activities were bundled with a park visit to create both "staycation" experiences for local guests and comprehensive Disney vacation packages for tourists.
- c) *Improved reach and frequency of marketing efforts through e-commerce and digital business:* Several initiatives enabled HKDL to increase guest engagement online. The launch of a Korean language website and a Japanese language version of the mobile app contributed to continued growth of digital traffic by international guests to HKDL's official website. Also, the introduction of a new online platform for HKDL tickets in March 2018 increased sales over the internet. Furthermore, the debut of an augmented reality experience on Baidu provided Mainland consumers with a virtual channel to explore the three resort hotels. As an effort to engage guests directly and increase affinity, HKDL launched a new "MyDisney Fans" programme, providing guests with benefits when buying tickets or booking hotel rooms on HKDL's official website. Social media engagement continued to increase with WeChat, the largest social platform in Mainland China, which became one of HKDL's most effective ways to build awareness and drive engagement. Furthermore, the fan base of HKDL's Facebook page grew by more than 30% in the past year to 1.2 million.
- d) *Offering new products and magical experiences around Disney's intellectual property:* During the year, HKDL expanded the Duffy and Friends property with the introduction of Cookie, a new character developed exclusively for the resort. Cookie immediately won the hearts of guests, with sales of plush toys within the first month of launch reaching three times above the record set by the introduction of another Duffy and Friends property, StellaLou a year ago. The Duffy and Friends collections were extremely popular in fiscal 2018, second only to Mickey and Minnie products. HKDL also presented the Disney·Pixar franchises, including "Toy Story" and "The Incredibles", during "Carnivale of Stars" in summer. In addition, the brand new Hong Kong Disneyland Hotel Kingdom Club Frozen Suites being the first-of-its-kind experience for fans of the smash-hit animated movie "Frozen" was launched.
- e) *Expanding outdoor events and meetings, incentives, conventions and exhibitions ("MICE"):* With the additional room capacity provided in the first full fiscal year of operations of Disney Explorers Lodge, HKDL was

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able to enlarge its group business, contributing to the growth in hotel occupancy and theme park attendance. HKDL partnered with the Hong Kong Tourism Board to attract corporate groups from Mainland China and Southeast Asia, and achieved in the first-ever buyout of all 750 rooms at Disney Explorers Lodge by a non-local corporation. HKDL also hosted a brand new outdoor concert event featuring the popular band from Taiwan, Mayday, with six live shows that attracted more than 120 000 guests from Hong Kong, Mainland China and the rest of Asia.

- f) *Capitalising on mega transportation infrastructure:* Ahead of the launch of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”) and Hong Kong-Zhuhai-Macao Bridge, HKDL partnered with the travel trade to stage more than 20 road shows and shopping mall events in key cities in Mainland China to increase awareness of the enhanced convenience and shortened travelling time to Hong Kong and HKDL. Once the railway commenced service, HKDL opened the “Magic Gateway” guest service centre at the West Kowloon Station of XRL to deliver enhanced guest services and experiences to visitors arriving Hong Kong.
10. HKDL is committed to Hong Kong and the community it serves. In fiscal 2018, HKDL worked with 400 organisations to provide more than 100 000 complimentary park visits for people in need; contributed around 7 000 hours of skills and services through the “Disney VoluntEARS” programme; and partnered with the Agency of Volunteer Services, encouraging over 2.7 million hours (a total of over 13 million hours since 2010) of volunteer service for people in need through the “Give a Day, Get a Disney Day” programme. Additionally, another key pillar of HKDL’s contributions is bringing happiness to children with illnesses and special needs and fulfilling their dreams, including:
- a) *Hospital robes project for in-patient children:* In partnership with Hong Kong Children’s Hospital, HKDL launched the project “Dress Well” to design and produce clothing for in-patient children at the newly opened compound. This first-of-its-kind collaboration with a public hospital takes children’s emotional and treatment needs into account in the design of the clothing, with the aim of reducing the stress of sick kids, their families and caretakers. Championed by HKDL, the project is funded with a donation of HK\$4.1 million from TWDC.
- b) *Programmes to bring happiness to children with chronic or acute illnesses:* HKDL continued to fund Playright’s “Hospital Play”

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programme at Princess Margaret Hospital Nephrology Ward and supported Make-A-Wish Foundation to grant more than 20 special wishes to children with critical illnesses. It also activated #ShareYourEars social campaign to promote Make-A-Wish Foundation in Hong Kong.

- c) *Festive celebrations to share joyful moments with children with illnesses and special needs:* For the first time, HKDL invited children with illnesses or special needs from community organisations, such as Princess Margaret Hospital Nephrology Ward, Ebenezer School and Little Life Warrior, to take centre stage at the theme park for Christmas carolling, followed by park visits with their families and caretakers. HKDL also partnered with Hong Kong Red Cross Hospital Schools to host Christmas parties at several public hospitals.

11. Other community highlights of HKDL in fiscal 2018 include:

- a) *Environmental stewardship to reduce waste:* HKDL extended its conservation commitment by eliminating the distribution of plastic straws in all food and beverage locations at the theme park and resort hotels, which would reduce the use of four million plastic straws per year; introducing green initiatives during special events; and collaborating with Foodlink to turn excessive food materials to ready-meals for those in need. More than 96 000 meals have been donated since 2013.
- b) *Inspiring youth:* “Disney ImagiNations Competition” was held for the eighth year, and attracted over 250 students from art and design, engineering and architecture disciplines to apply Disney’s design principles to their creative projects. In addition, HKDL continued to partner with the Hong Kong Federation of Youth Groups to offer the “Friends for Change” youth grants and funded 50 youth-led creative volunteering projects to serve the community; and support the annual “We Did It” scheme for local primary schools to recognise students who brought joy and happiness to others and parents who actively helped establish a positive and enjoyable learning environment. More than 7 000 students and parents were commended and 14 000 complimentary park tickets were awarded.
- c) *Programmes to nurture theme park and tourism expertise:* HKDL participated in the Employees Retraining Board’s “First-Hire-Then-Train” programme; and continued to partner with the Li Ka Shing Institute of Professional and Continuing Education of the Open University of Hong Kong to offer a two-year full-time Higher Diploma Programme in Resort

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and Theme Park Management. HKDL offered 33 scholarships and over 200 internships to students from the Hong Kong Academy for Performing Arts, Vocational Training Centre and other local higher educational institutions.

- d) *Continued efforts to champion diversity and inclusion:* For 12 consecutive years, HKDL offered apprenticeships for people with disabilities in partnership with the Labour Department, the Social Welfare Department, the Hong Kong Council of Social Service and 40 non-governmental organisations; and employed around 100 people with disabilities during fiscal 2018. HKDL participated in the government's Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme to champion an inclusive, disabled-friendly workplace, as well as UNICEF's #SayYesToBreastFeeding to promote a breastfeeding-friendly workplace.
12. On average, HKDL employed more than 5 200 full-time and 2 300 part-time staff during fiscal 2018, making it 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 400 000 hours of professional and technical training during the year.
13. HKDL continues to generate exceptional guest satisfaction ratings. In fiscal 2018, 94% of theme park guests surveyed and 92% of hotel guests surveyed reported that their overall experience was "excellent", "very good" or "good".
14. HKDL received 74 awards during fiscal 2018 in recognition of its design and marketing excellence, guest service, employment relationship, commitment to the community and to the environment. These included a number of corporate citizenship awards from local government and community partners. HKDL received five Gold Awards for "Iron Man Experience" in the MARKies Awards 2018 Hong Kong and also the Gold Award for "Excellence in Digital Marketing" for "Iron Man Experience" at the Marketing Excellence Awards 2017. HKDL received "Best Theme Attraction (Overseas)" from the Travel Trade Gazette China Travel Awards 2018 and "Best Attraction" from the Travel Weekly Asia 2017 Readers' Choice Awards.

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MULTIYEAR EXPANSION AND DEVELOPMENT PLAN

15. In October 2017, HKDL officially commenced construction on the multiyear expansion and development plan for the park, adding a number of new guest offerings based on some of Disney's most popular stories. New guest offerings under the plan are being rolled out progressively from 2018 onwards, starting with the stage show "Moana: A Homecoming Celebration" in May 2018, the attraction "Ant-Man and The Wasp: Nano Battle!" in end-March 2019, as well as a transformed castle with two entirely new daytime and nighttime shows and two new themed areas featuring "Frozen" and Marvel in subsequent years.
16. In addition to broadening the appeal of HKDL as a global tourist destination, this multiyear 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 during the construction stage and a total of 600 additional resort-based employment positions when the plan is completed.

KEY BUSINESS DRIVERS AND FINANCIAL HIGHLIGHTS

17. For the fiscal year ended 29 September 2018, HKDL generated record high revenue of HK\$6,021 million, 18% increase from the prior year. EBITDA also reached a record high of HK\$1,355 million, 48% above the prior year. The strong growth in revenue and EBITDA was attributable to increases in occupied room nights at the resort hotels, park attendance and guest spending.
18. At the park, full-year attendance reached 6.7 million, up by 8% from the prior year, and reflected increases from all three market segments: Mainland China, local, and other markets. Higher guest visitation was mainly driven by new guest offerings and the year-round signature seasonal events. Attendance from other markets exceeded last year's record as a result of effective and targeted marketing and sales efforts, primarily in Japan, South Korea and the Philippines. Per capita spending in the park also set a new record and grew by 6% year-on-year and for the ninth consecutive year.
19. The resort hotels benefited from the first full fiscal year of operations of Disney Explorers Lodge, which opened in April 2017, as well as pricing strategies and tactical promotions. Occupied room nights increased by 44% from the prior year, and average occupancy was up six percentage points to 75%.

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Key revenue drivers for the fiscal year were as follows:

	2018	2017
Park attendance (in millions)	6.7	6.2
Hotel occupancy	75%	69%

Year-on-year change for key revenue drivers	Percentage change	
	2018	2017
Park attendance	8%	3%
Per capita spending	6%	4%
Available room nights	33%	32%
Per room guest spending	(8%)	(3%)

Origin of visitors as a percentage of total attendance	2018	2017
	Local	40%
Mainland China	34%	34%
Other markets	26%	25%

Key financial results for the fiscal year were as follows:

	2018	2017	Variance
(in HK\$ millions)			
Revenue	6,021	5,118	903
Costs and expenses	4,666	4,204	462
Earnings before interest, taxes, depreciation and amortisation	1,355	914	441
Depreciation and amortisation	1,384	1,242	142
Net finance cost	25	17	8
NET PROFIT/(LOSS)	(54)	(345)	291
Current assets	2,788	1,448	1,340
Non-current assets	19,339	19,487	(148)
Current liabilities	(2,417)	(1,987)	(430)
Non-current liabilities	(1,964)	(2,302)	338
SHAREHOLDERS' EQUITY	17,746	16,646	1,100

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Revenue

20. HKDL generates revenue predominantly from the sale of admission tickets to the theme park, room nights at the hotels and merchandise, food and beverage at both the theme park and hotels. For fiscal 2018, total revenue increased by 18%, or HK\$903 million, to HK\$6,021 million, reflecting increases in hotel occupied room nights, park attendance and guest spending at the park.

Costs and expenses

21. 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\$462 million, to HK\$4,666 million for fiscal 2018 was attributable to the first full fiscal year operations of Disney Explorers Lodge and “Iron Man Experience,” as well as the launch of “Moana: A Homecoming Celebration” and cost inflation. The increase was partially offset by efficiency and cost management efforts.

Depreciation and amortisation

22. Depreciation and amortisation increased by 11%, or HK\$142 million, to HK\$1,384 million mainly reflecting the full-year impact of two new major assets, i.e. “Iron Man Experience” and Disney Explorers Lodge, introduced in the second and third quarters of fiscal 2017 respectively, and the launch of “Moana: A Homecoming Celebration” in the third quarter of fiscal 2018.

Net finance cost

23. Net finance cost consists of interest expense, net of interest income. The increase of HK\$8 million in net finance cost from the prior year to HK\$25 million reflected lower capitalised interest upon the completion and launch of capital projects such as “Iron Man Experience” and Disney Explorers Lodge.

Net profit/(loss)

24. Net profit/(loss) improved by HK\$291 million and reduced net loss to HK\$54 million, an 84% reduction was mainly attributable to better operating performance.

Current assets

25. Current assets consist of cash and cash equivalents, trade and other receivables and inventories. The increase of 93%, or HK\$1,340 million, to HK\$2,788 million in fiscal 2018 was mainly contributed by net increase in cash and cash equivalents during the year. (See “FINANCIAL LIQUIDITY” section below for more details.)

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Non-current assets

26. Non-current assets include property, plant and equipment, leased land and projects in progress. Non-current assets decreased by 1%, or HK\$148 million, to HK\$19,339 million mainly due to depreciation and amortisation, partially offset by spending on the multiyear expansion and development plan.

Current liabilities

27. Current liabilities consist of trade and other payables, deferred revenue and short-term borrowings. The increase of 22%, or HK\$430 million, to HK\$2,417 million arose from, amongst others, a reclassification of a loan instalment from non-current liabilities to current liabilities in anticipation of repayment to HKSARG in fiscal 2019, as well as higher deferred revenue related to advance theme park ticket sales.

Non-current liabilities

28. 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 decrease of 15%, or HK\$338 million, to HK\$1,964 million reflected, amongst others, the aforementioned reclassification of the loan instalment in anticipation of repayment to HKSARG in fiscal 2019 to current liabilities.

FINANCIAL LIQUIDITY

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

	2018	2017	Variance
(in HK\$ millions)			
Cash generated / (used) by:			
Operating activities	1,492	922	570
Investing activities	(1,309)	(1,866)	557
Financing activities	1,129	523	606
NET INCREASE / (DECREASE)			
IN CASH AND CASH EQUIVALENTS	1,312	(421)	1,733

29. Cash and cash equivalents increased by HK\$1,312 million from HK\$1,123 million at the end of fiscal 2017 to HK\$2,435 million at the end of fiscal 2018. The increase was primarily attributable to net cash generated from

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operating activities and equity contributions from shareholders for the multiyear expansion and development plan, partially offset by spending on capital projects.

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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.