LCQ16: Depreciation and amortisation costs for the Hong Kong Disneyland Resort
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Following is a question by the Hon Wu Chi-wai and a written reply by the Acting Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (March 28):

Question:

The earnings of the Hong Kong Disneyland Resort (HKDL) before interest, taxes, depreciation and amortisation (EBITDA) were $914 million in fiscal year 2017. After deducting costs such as depreciation and amortisation totalling $1,242 million, HKDL recorded a net loss of $345 million. The increase in depreciation and amortisation costs was attributable mainly to (i) the completion of new attractions and a hotel, and (ii) the depreciation costs arising from the retirement of certain assets for taking forward HKDL's expansion and development plan (the expansion plan). In addition, the depreciation costs for the various types of assets of HKDL are calculated on the basis of (i) a straight-line method and (ii) the different ranges of depreciation periods applicable to different types of assets. In this connection, will the Government inform this Council:

(1) whether it knows the number of major attractions and sightseeing facilities retired by HKDL since its opening in 2005, and set out one by one the following information of such facilities: (i) name of facility, (ii) the annual depreciation cost before the retirement, (iii) the service period and the remaining depreciation period upon the retirement, and (iv) the depreciation cost arising from the retirement;

(2) whether it knows the projected (i) depreciation costs arising from the retirement of facilities, (ii) depreciation costs for new facilities, and (iii) total amount of depreciation costs, in each of the coming five years;

(3) whether it knows the attendance of HKDL in each of the coming five years which will enable HKDL's EBITDA to just offset its depreciation and amortisation costs, calculated on the basis that factors such as admission fees and hotel occupancy rates remain at the current levels;

(4) as the Government indicated last year that the incremental revenues to be brought about by the expansion plan in each year would be higher than the depreciation costs

for the new assets in the same year, but the revenue of HKDL last year failed to achieve that level, whether the Government or HKDL has assessed the revenues and earnings of HKDL in the coming five years; if so, of the details; whether the Government or HKDL has formulated remedial measures (e.g. lowering the royalties and management fees that HKDL is required to pay to the Walt Disney Company, or amending the terms concerning the option to buy the site for the Phase 2 expansion plan) to deal with the situation that the revenues of HKDL in each year are persistently lower than the depreciation costs for its new assets; and

(5) whether it knows the average anticipated service periods of the rides and attractions of HKDL or its counterparts; the factors based on which HKDL has set the range of depreciation periods for such facilities at eight to 25 years; how the criteria adopted for setting such range of depreciation periods compare with those used by HKDL's counterparts; whether other theme parks have similarly incurred a large amount of depreciation costs arising from the retirement of assets?

Reply:

President,

Hong Kong Disneyland Resort (HKDL) is a major component of the tourism infrastructure in Hong Kong which helps consolidate our position as an international premier tourist destination and promote the development of Hong Kong's tourism and other related industries, bringing substantial economic benefits and employment opportunities to Hong Kong.

HKDL has made sustained efforts in enriching its attractions and offerings so as to enhance its attractiveness and competitiveness as well as to play to its strength in attracting high value-added visitors from all over the world to Hong Kong and fostering tourism development. In 2017, HKDL launched the "Iron Man Experience" ride and the new resort-style hotel "Disney Explorers Lodge". After obtaining the funding approval from the Legislative Council, HKDL has, since the second half of 2017, been actively taking forward its expansion and development plan (the Plan), with various new attractions to be launched progressively from this year to 2023 for further enhancing HKDL's attractiveness.

Under the Plan, the first new attraction, "Moana: A Homecoming Celebration" stage show, would be launched at a new outdoor venue at Adventureland in May 2018.

Other new attractions coming on stream in the next few years include the transformed ride experience featuring "Marvel" super heroes, namely "Ant-Man" and "Wasp"; the expanded and transformed Castle; another "re-imagined" project; as well as two new themed areas based on "Frozen" and "Marvel" respectively.

Our reply to the five parts of the question is as follows:

(1) and (2) The annual depreciation costs of HKDL would increase when a new asset is completed and commences operation, and would decrease when certain assets are fully depreciated. The data in the past show that depreciation costs could go up or down, and it is difficult to generalise the trend of such costs. For fiscal year 2017, the increase of HKDL's depreciation costs was mainly due to the addition of the above-mentioned two major assets during the year, namely "Iron Man Experience" and "Disney Explorers Lodge", and the increased depreciation relating to the retirement of certain assets for taking forward the Plan, which includes removing certain original props installations, scene facilities, etc of "Buzz Lightyear Astro Blasters" progressively for re-decorating the building and adjusting the system into a re-imagined ride based on "Marvel" super heroes, namely "Ant-Man" and "Wasp", and removing certain original area designs around the Castle progressively to free up land for expanding the Castle. The Plan would retain the original major structures of "Buzz Lightyear Astro Blasters" and the Castle, and thus there would not be accelerated depreciation for these structures.

As the details of useful life, depreciation costs, etc of the individual asset involve HKDL’s confidential commercial information, according to the agreements between the Government and Disney's side, the information on this front cannot be disclosed.

(3) and (4) HKDL expects that with the progressive launch of various new attractions under the Plan from this year to 2023, its attendance would have a steady year-on-year growth with the total attendance in fiscal year 2025 attaining 9.0 million to 9.3 million. The hotel occupancy would also increase accordingly, thereby increasing the overall revenues. While the related additional depreciation costs would also start to kick in during the relevant years, the incremental revenues brought about by the Plan are expected to be higher than the annual depreciation costs of the new assets. In this regard, the Government will continue to closely monitor the performance of the management company of HKDL in operating HKDL, and request the management company to endeavour to achieve the expected performance as well as to review the

relevant situation and take improvement measures where necessary.

HKDL is an important tourism facility of Hong Kong, and its operation in the past 12 years has brought $90.9 billion of total value added (at 2015 prices) to and created a total of 232 500 jobs (in terms of man-years) in Hong Kong. Being the majority shareholder of HKDL, the Government will continue to monitor the developments and performance of HKDL. With the gradual launch of various new attractions under the Plan in the future, as well as the new opportunities to Hong Kong's tourism industry brought about by the upcoming commissioning of various cross-boundary infrastructures (including the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge), we believe that the business performance of HKDL would be benefited with more tourists visiting HKDL, which would in turn further promote the development of Hong Kong's tourism industry.

(5) HKDL's policy for depreciation of assets is formulated according to Hong Kong Financial Reporting Standards and Hong Kong's generally accepted accounting principles, and is consistent with that for similar categories of assets and equipment of other theme parks (e.g. Ocean Park) and entertainment businesses. HKDL's depreciation of property, plant and equipment is calculated using the straight-line method which allocates the cost over the estimated useful life after deducting the residual value; and the depreciation period of different asset types of HKDL is shown in the following table:

Type of asset	Depreciation period
Buildings and improvements	3-40 years
Furniture, fixture and equipment	3-10 years
Machinery and equipment	3-40 years
Rides and amusements	8-25 years
Shows and parades	5 years

Generally speaking, when a new asset of HKDL is completed and commences operation, the additional depreciation arising from such new asset is calculated based on the above depreciation policy. Moreover, taking into account the needs of HKDL's day-to-day operations or development plans, HKDL may need to suitably retire certain existing assets to complement its development, which would make those assets become fully depreciated earlier and thus speed up the relevant depreciation costs. The situations of adding and retiring assets are common to other theme parks' operations. As mentioned above, the way that HKDL handles the depreciation costs concerned is in line with Hong Kong Financial Reporting Standards and Hong Kong's generally accepted accounting principles, and is consistent with the practice of other theme parks.

Ends/Wednesday, March 28, 2018
Issued at HKT 14:00

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