

**For information**

**Legislative Council Economic Services Panel**

**Hong Kong Tourism Board  
Budget for 2006-07**

**PURPOSE**

This paper sets out the main features of the budget of the Hong Kong Tourism Board (HKTB) for 2006-07.

**BACKGROUND**

2. Members noted the Annual Business Plan for 2006-07 of the HKTB at the meeting held on 26 June 2006 and requested for more information on its budget.

**BUDGET FOR 2006-07**

3. Under the HKTB Ordinance (Cap 302), the HKTB is charged with the objects of –

- (a) endeavouring to increase the contribution of tourism to Hong Kong;
- (b) promoting Hong Kong globally as a leading international city in Asia and a world class tourist destination;
- (c) promoting the improvement of facilities for visitors;
- (d) supporting the Government in promoting to the community the importance of tourism;
- (e) supporting, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) making recommendations to and advising the Chief Executive in relation to any measures which may be taken to further any of the foregoing matters.

To achieve these statutory objects, the HKTB's funding is mainly for marketing and promoting Hong Kong as the region's preferred travel destination among different targeted visitor segments in 16 key markets. The

HKTB seeks to attract longer stay and more spending by visitors, as well as repeat visits, through local mega events, travel information dissemination and tourism services enhancement. The detailed plans and programmes, which encompass promotions to the global travel trade and consumers, as well as publicity with the media, are implemented by various functional units in the head office in Hong Kong, as well as 14 worldwide offices. A summary of HKTB's 2006-07 budget together with 2005-06 revised estimates is attached as Annex 1.

# **I. Income of HKTB in 2005-06 and 2006-07**

4. Income of the HKTB in 2006-07 comprises a Government subvention; non-recurrent subvention earmarked in 2005 for the 2006 Discover Hong Kong Year (DHKY) campaign, booster programme for the family and business visitor segments, sustaining and enhancing the Quality Tourism Services (QTS) Scheme, and ad hoc projects brought forward from previous years; interest on bank deposits; miscellaneous income; and deployment from reserve to support marketing programmes. A breakdown is set out in the table below –

<b>Income</b>	<b>2006-07 Budget (HK\$ million)</b>	<b>2005-06 Revised Estimates (HK\$ million)</b>
Government Subvention	466.15	466.21
Non-recurrent Subvention	280.08	222.53
Interest on bank deposits	6.60	7.50
Miscellaneous income	0.82	0.97
Deployment from reserve	21.63	22.41
Written back previous years' accruals	-	4.00
Total	775.28	723.62

5. The Government subvention is adjusted from year to year based on Government's trend growth adjustment. The level of funding in 2006-07 of \$466.15 million is similar to that in 2005-06. The amount of Government subvention has been reduced in the past years<sup>1</sup> due to contribution to the Enhanced Productivity Programme.

6. The non-recurrent subvention of \$280.08 million for 2006-07, together with \$21.63 million from its reserve, is mainly for the DHKY campaign, staging and marketing of mega events and QTS Scheme.

## **II. Expenditure**

7. In keeping with the HKTb's strategy of maximising the funds available for its marketing work, fixed costs are vigorously controlled and monitored as explained below. A ratio of fixed cost versus marketing cost is used to guide the resource allocation of the HKTb. The current ratio stands at 27% to 73% in 2006-07.

### ***(a) Staff Costs***

#### Staff establishment

8. The total headcount of HKTb in 2006-07 is 321 with 226 in the head office and 95 in its worldwide offices. Headcount is strictly controlled and the organisation structure is regularly reviewed to ensure the structure best supports the dynamics of the market and provides an efficient working environment to the staff.

9. Headcount in the head office (226) has remained unchanged since 2004-05. It has seen a significant reduction of 99 headcount from 325 in 1999 to the current level despite the significant growth of the tourism industry in the same corresponding period (visitor arrivals grew more than double from 10.7 million in 1999 to 23.4 million in 2005), the growing demand for support from the tourism industry as well as the visitors, and the broader role of HKTb in servicing the entire tourism industry since its reconstitution in 2001 from a membership organisation (the former Hong Kong Tourist

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<sup>1</sup> The recurrent subvention provided to HKTb in previous years –  
 \$514.57 million in 2000-01,  
 \$505.63 million in 2001-02,  
 \$495.38 million in 2002-03,  
 \$482.26 million in 2003-04, and  
 \$474.11 million in 2004-05.

Association) to a body corporate supporting the broader interests of Hong Kong's tourism development.

10. The HKTb operates 14 worldwide offices, including three in North America, three in Europe, one in Australia, two in North Asia, one in South-East Asia and four in China. The headcount of the 14 worldwide offices has remained unchanged at 95 since 2004-05. The HKTb regularly reviews its overseas presence to ensure they are best positioned to develop the potential of different markets and to support the marketing work overseas, including liaison with the travel and related trades. As an example, headcount for the opening and expansion of offices in China has been re-deployed from the closure and downsizing of offices in other locations.

11. Despite the additional non-recurrent funding provided to the HKTb since 2003-04 (\$379 million over 2003-04 and 2004-05 for post-SARS tourism revival campaign, and \$470 million over 2005-06 and 2006-07 for DHKY campaign), the headcount in the head office and the worldwide offices has not increased. The HKTb has only resorted to hire temporary project staff members to cope with the additional workload.

#### Staff Cost

12. The HKTb's compensation and benefits policy for both the head office and the worldwide offices have undergone a comprehensive review conducted recently by an independent consultant. As the HKTb is a marketing organisation that needs to compete with the market for its staffing resources, it is necessary to align its compensation and benefits policy with the market. The review showed that the HKTb's compensation and benefits level are largely in line with the market.

13. For the 2006-07 budget, a 3% increase in head office staff salary, based on market pay trend survey, was budgeted. Salary increase for the worldwide offices will follow the findings of the pay trend survey of the local markets, which vary from 2% to 8%. Such increases have taken into account turnover rate in 2005-06, increase in salary costs and exchange rate movement of the worldwide offices.

#### ***(b) Office Costs***

14. The HKTb endeavours to minimise its office operating expenses by identifying areas of savings and by process re-engineering from time to time. Despite an inflation of 2.1% in Hong Kong, office costs for head office will remain unchanged at \$13.9 million in 2006-07.

15. For the worldwide offices, overall office costs will increase by 1.2% mainly due to increase in rental for office leases due for renewal in 2006-07 and necessary minor repair and maintenance works.

***(c) Operational Activities***

16. A summary of the operational marketing activities budget is shown at Annex 2.

17. Marketing and promotion remain the core business of the HKTb. Marketing expenditure constitutes 73% of its total expenditure and can be categorised into expenditure by key functions performed by the HKTb, i.e. travel industry promotion, consumer promotion, publicity programmes and destination marketing (mega events, visitor services and experiences enhancement). Work in these functional areas is highlighted in the ensuing paragraphs.

**Travel Industry Promotion**

18. For travel industry promotion, the HKTb organises regular roadshows and travel missions as well as facilitates the participation of the Hong Kong travel trade in international tradeshowes so as to establish contact with the overseas travel trade. The HKTb also conducts travel trade seminars, information update sessions with the overseas travel trade and hosts trade familiarisation visits to Hong Kong. These help keep the overseas travel trade abreast of the latest Hong Kong tourism products and stimulate their interest in organising tours and promote Hong Kong to their customers. During the DHKY campaign, the HKTb is leveraging on the new tourism products launched in 2005 and 2006 to enhance the presence and exposure of Hong Kong in the overseas tourism arena and to promote the wider range of tourism products to the travel trade for tour packaging. The HKTb also targets the business visitors, who are considered a high-yield segment, especially those attending meetings, incentive travel, conventions and exhibitions in Hong Kong (the MICE sector). Business visitors spend significantly more than an average visitor (\$6,078 vis-à-vis \$4,663 (per capita spending) in 2005). The HKTb conducts specific promotions to target this segment to drive attendance of tradeshowes and conventions, as well as to bid for the staging of these events in Hong Kong. In the first half of 2006, overnight business arrivals increased by 9.9% over the same period last year.

19. The budget of \$80.11 million for travel industry promotion is being deployed as follows –

	<b>HK\$ million</b>
Trade promotions	46.61
Trade Familiarisation	10.20
Business Development	22.50
Tour Development	0.80
Total	<u>80.11</u>

#### Consumer promotion

20. On consumer promotion, the HKTb targets the consumers from 16 key source markets<sup>2</sup>. Consumer promotion is being launched as follows –

- (a) to vigorously promote the diversity of Hong Kong's tourism products and Hong Kong's new and exciting image to consumers globally through the media (including print and electronic media and the internet);
- (b) to co-operate with strategic partners (e.g. travel trade, retail trade, travel websites, and travel magazines etc) to launch joint promotions, and make use of their customer base and information dissemination channels to broaden the promotion coverage, and invite internationally renowned personalities to participate in the consumer promotion activities with a view to enhancing the marketing effectiveness; and
- (c) to promote "2006 Discover Hong Kong" locally with a view to increasing the awareness of the community and fostering a hospitality culture.

21. To attract more family and business visitors, the HKTb is staging mega events to leverage on the festive atmosphere of Hong Kong during the main festival seasons to attract more visitors to Hong Kong and lengthen their stay (see paragraph 24 for details of the mega events). Overseas promotions will target the family and business segments through

<sup>2</sup> The 16 markets include the United States of America, Canada, the United Kingdom, Germany, France, Australia, Mainland China, Taiwan, Japan, South Korea, Singapore, Malaysia, Thailand, the Philippines, Indonesia and India.

advertising and PR efforts, such as co-operation with media partners to drive visitor traffic and raise Hong Kong's profile overseas during the mega event period and for world class events staged in Hong Kong. Efforts will also be made to develop and introduce tour itineraries that are suitable for families (e.g. edutainment activities) and to conduct promotions specially targeting children (e.g. working with the Mainland education authorities to stage promotional activities targeting school children in the Mainland to raise their interest in visiting Hong Kong). The work in 2006 will continue in this direction. In the first half of 2006, overnight family visitors grew by 24.4% over the same period last year. In particular, the proportion of family travellers bringing children to Hong Kong increased from 22.7% in first quarter of 2005 to 43.4% in first quarter of 2006.

22. The budget of \$239.5 million allocated for consumer promotion is being used as follows –

	<b>HK\$ million</b>
Consumer Communications and Services	148.90
Meet and Greet Programme and promotional materials	17.30
Promotion of Mega Events	73.30
Total	<u>239.50</u>

#### Publicity programmes

23. The budget earmarked for publicity is \$57.9 million. For publicity programmes, which spans across 16 key source markets, the major target is the media, including TV stations, radio stations, print media, internet, and travel media. Through hosting of familiarisation visits for the media, the HKTb aims to enhance their awareness and knowledge of the tourism development in Hong Kong, so that they could help promote and publicise Hong Kong and increase the popularity of Hong Kong globally. The HKTb co-operates with national media organisations in 16 key source markets to produce special features / programmes / national report coverage on Hong Kong's new tourism products and renewed image, publish travel guides for magazine and newspaper insertions.

### Destination marketing

24. In 2006-07, the HKTb has allocated a total of \$103.8 million for staging six mega events –

- (a) International Chinese New Year Night Parade;
- (b) Culture and Heritage Celebration;
- (c) Hong Kong Shopping Festival;
- (d) Mid-Autumn Lantern Celebration;
- (e) Best of the Best Culinary Awards; and
- (f) Hong Kong WinterFest.

These events aim at showcasing the core strengths of Hong Kong in shopping and dining, and bringing out its culture and heritage for the benefit of enhancing visitor experience, hence driving new and repeat arrivals and reinforcing the new and exciting image of Hong Kong. They have not only increased the appeal and awareness of Hong Kong as a diversified tourist destination, but also provided valuable opportunities for the local tourism-related trade (such as the retailers and restaurateurs) to ride on to drive more business. For the 2006 Hong Kong Shopping Festival, over 8,000 merchant outlets participated in the festival, which grew from 3,100 just over two years ago in 2004.

25. To further enhance the experience of visitors during their stay in Hong Kong, the HKTb has earmarked \$40.73 million to support its marketing efforts in Hong Kong (i.e. destination marketing). The HKTb works closely with the tourism-related trade to encourage them to upgrade the quality of products and services offered to visitors, provide information to visitors, devise segment marketing programmes to raise the satisfaction of their stay in Hong Kong, and run the Tourism Orientation Programme to enhance the hospitality image of Hong Kong as well as to train a cadre of frontline personnel for the industry. New information dissemination platforms, such as personal digital assistants, mobile phones, and new information literature (such as ‘Discover Hong Kong by Rail’) are launched to facilitate visitors to plan their own itineraries. The HKTb supports the travel trade in developing new tourism products for visitors, such as new products on green, culture and heritage aspects of Hong Kong, and monitors the quality of existing products. “Nature Kaleidoscope”, which facilitates the enjoyment of visitors of the nature and green side of Hong Kong, is an example.



26. The HKTb will also continue with the work on revamping the HKTb's website, which is currently available in seven English and 11 other language versions, with more than seven million page views per month. The initiatives include installing mirror website and other improvement measures in key regional markets; introducing a new content management system and a contemporary web portal designs with more multimedia and interactive elements; further enhancing the editorial content, page design, visuals and animations; and developing web content for the interactive kiosks at the nine nodal points to be set up along the Tsim Sha Tsui Promenade.

27. An amount of \$17.2 million is earmarked to expand and promote the QTS Scheme in 2006-07. The HKTb aims to expand the number of QTS shopping and dining outlets from 5,945 at the beginning of 2006 to 6,300 by the end of 2006-07. Plan is underway to expand the Scheme to the guesthouse sector as well as to study the feasibility of expanding the Scheme to the grooming service industry. For overseas promotion of the Scheme, the HKTb will reinforce its promotions and publicity in various key markets, particularly Japan, Korea and Mainland China, so as to enhance visitors' awareness of the Scheme.

28. To support the frontline marketing work, a budget of \$40.70 million is provisioned for support work, such as market research, campaign tracking, strategic planning, logistics and systems support and professional services, such as internal audit and legal advice. The effectiveness of the events will be tracked against the performance indicators of visitor arrivals, visitor satisfaction and visitors' intention to revisit, their interest to participate in the same event again, and whether they would recommend to friends and relatives. In-depth studies will be conducted in source markets to understand better the changing needs and tastes of the visitors.

### **Marketing expenditure in source markets**

29. In carrying out the above key functions, marketing expenditure will be incurred in three areas -

- (a) the source markets (e.g. publicity programmes);
- (b) the head office to support worldwide marketing programme (e.g. research and support services); and
- (c) Hong Kong for destination marketing (e.g. staging of mega events).

The marketing budget is allocated to the markets according to the potential of the market, the cost of doing business in the market and the spread of the target segments within the market, which in turn affects the cost in reaching them (e.g. the cost of placing TV commercials and print advertisements in the United States is amongst the highest of all regions). The HKTb's strategy is to maintain a diversified portfolio of source markets to minimise the impact of market volatility (e.g. the "911 Incident" and the Tsunami in South Asia have adversely affected the global tourism environment and the local travel trade, both in the inbound and outbound tourism markets) and to maintain an international image of Hong Kong as a tourist destination.

### **Marketing in the Mainland**

30. With the high potential of the Mainland market and the introduction of the Individual Visits Scheme (IVS) in 44 cities, promotions are being stepped up with the local and Mainland travel trade by staging roadshows, tactical promotions with trade partners, co-op promotions with the media to introduce Hong Kong's new attractions and existing unique appeal. Publicity activities are being reinforced in cities under the IVS Scheme so as to strengthen the information dissemination to and impression of the IVS visitors prior to their arrival.

31. In addition to the marketing expenditure spent directly in the Mainland market, part of the funding for the head office is used to support development work of this high growth market in enhancing brand awareness in 30 high potential cities and spending stimulation programme. The resources allocated are aimed at consolidating our image and expanding our market share amidst increasing competition from neighbouring destinations as well as domestic travel in the Mainland.

32. To increase awareness and interest to travel to Hong Kong in the Mainland market, apart from implementing marketing programmes, an important element is HKTb's relationship building with the travel trade, as well as the relevant Mainland authorities. The HKTb has, for instance, gained the support of the Public Security Bureaux responsible for issuing IVS permits to collaborate with the HKTb to promote to the IVS segment; and that of the Education Bureaux to drive school programmes in order to target the family segment. To leverage on the fast expansion of the market, the HKTb has increased the number of offices from two (Beijing and Shanghai) to four (Guangzhou and Chengdu) and strengthened its staff members from 19 to 24 in the Mainland in the past two years.

### **Monitoring mechanisms**

33. The Government and the Board of the HKTb will continue to closely monitor the HKTb's resource deployment in carrying out its duties and work, according to the established monitoring mechanism and requirements in the law to ensure the effective use of public resources. These include the requirement of auditing the HKTb's annual financial statement by an external auditor appointed by the Government; and HKTb's submitting its annual report of activities to the Government and laying the same before the Legislative Council. In addition, the HKTb is also a "public body" stipulated in the Prevention of Bribery Ordinance and is subject to the Director of Audit's scrutiny.

34. The HKTb has an established mechanism of financial monitoring and internal audit to ensure cost-effectiveness of its promotional activities. Its work plan and budget, progress and effectiveness of marketing programmes, financial procedures and guidelines are all vetted and monitored by relevant Committees established under the Board, namely, the Audit Committee, the Staff and Finance Committee, the Marketing and Business Development Committee and the Product and Event Committee.

35. Moreover, to track the effectiveness of the promotional programmes and activities, the HKTb has established four objective Key Performance Indicators (KPIs), including visitor arrivals, length of stay, satisfaction level and spending of visitors. These four KPIs are being constantly tracked and monitored through different surveys to ensure that the marketing efforts achieve the desired results.

**Hong Kong Tourism Board****Annex 1****Income and Expenditure for 2005-06 and 2006-07**

The estimates of the HKTB's income and expenditure for 2006-07 and the revised estimates for 2005-06 are summarised below :

	<b>2006-07 Budget</b>	<b>2005-06 Revised Estimates</b>
	\$'m	\$'m
<b>INCOME</b>		
Government Subvention:	746.23	688.74
Recurrent	466.15	466.21
Non-recurrent	280.08	222.53
Interest on bank deposits	6.60	7.50
Miscellaneous income	0.82	0.97
Deployment from the Reserve	21.63	22.41
Written back previous years accruals	-	4.00
<b>TOTAL INCOME</b>	<b>775.28</b>	<b>723.62</b>
<b>EXPENDITURE</b>		
Expenses on Operational Activities	564.44	531.53
Staff Costs (note 1)	173.96	155.55
Office Costs	36.88	36.54
<b>TOTAL EXPENDITURE</b>	<b>775.28</b>	<b>723.62</b>

Note 1: The 2005-06 revised estimates have taken into account of the high vacancy rate in 2005-06 whereas the 2006-07 budget is calculated based on cost of existing staff.

Operational Activities Budget and Budget in Source Markets for 2006-07

<b>Expenditure</b>	<b>Operational Activities Budget</b>	<b>Budget in Source Markets</b>
	\$'m	\$'m
<b>Travel Industry Promotion</b>		
Trade Promotions	46.61	25.90
Trade Fam	10.20	5.03
Business Development	22.50	9.50
Tour Development	0.80	-
	80.11	40.43
<b>Consumer Promotion</b>		
Consumer Communication & Services	148.90	82.76
Meet and Greet Programme and Promotion materials	17.30	12.48
Promotion of Mega Events	73.30	54.24
	239.50	149.48
<b>Publicity Programmes</b>	57.90	41.65
<b>Destination Marketing</b>		
-Mega Events*	88.30	-
-Destination Marketing	40.73	-
-Quality Tourism Services (QTS) Scheme	17.20	-
-Others	40.70	-
	186.93	-
<b>Grand Total</b>	564.44	231.56

\*Together with funding of \$15.5 million deployed from the function of "Consumer Communication & Services", the total budget for staging six mega events is \$103.8 million (\$88.3 million + \$15.5 million )