

立法會
Legislative Council

LC Paper No. CB(1)1023/07-08
(These minutes have been seen
by the Administration)

Ref : CB1/PL/EDEV/1

Panel on Economic Development

Minutes of meeting
held on Monday, 28 January 2008, at 10:45 am
in the Chamber of the Legislative Council Building

- Members present** : Hon Jeffrey LAM Kin-fung, SBS, JP (Chairman)
Hon Abraham SHEK Lai-him, SBS, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Fred LI Wah-ming, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, SBS, JP
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Albert CHAN Wai-yip
Hon Vincent FANG Kang, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon TAM Heung-man
- Members absent** : Dr Hon David LI Kwok-po, GBM, GBS, JP
Dr Hon LUI Ming-wah, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon KWONG Chi-kin
- Public officers attending** : Agenda Item IV
Miss Janice TSE, JP
Deputy Secretary for Transport and Housing
(Transport)

Mr CHAN Ming-kwong
Chief Assistant Secretary for Transport and Housing
(Transport)

Agenda Item V

Miss AU King-chi, JP
Commissioner for Tourism

Ms Laura TSOI
Assistant Commissioner for Tourism

**Attendance by
invitation**

: Agenda Item V

Hong Kong Tourism Board

Hon James TIEN, GBS, JP
Chairman

Mr Anthony LAU
Executive Director

Miss Cynthia LEUNG
General Manager
Corporate Communications & Public Relations

Mr Kenneth WONG
Head of Consumer Marketing and Communications

Mr Denis LAW
Senior Manager
Strategic Planning

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)6

Staff in attendance : Ms Debbie YAU
Senior Council Secretary (1)1

Ms Michelle NIEN
Legislative Assistant (1)9

I Confirmation of minutes and matters arising

(LC Paper No. CB(1) 551/07-08 - Minutes of meeting held on 26 November 2007)

The minutes of the meeting held on 26 November 2007 were confirmed.

Regular meeting on 18 July 2008

2. As the last Council meeting of the 2007-2008 session would be held on 9 July 2008 and by then the Panel should have submitted its report for the session, the Chairman advised that members might consider canceling the regular meeting of the Panel originally scheduled for 18 July 2008. He said that in case the Panel needed to deal with special subject matters around that time, appropriate arrangements could be made. Members agreed to cancel the regular meeting scheduled for 18 July 2008.

(Post meeting note: The circular informing members of the cancellation of the regular meeting of the Panel for July 2008 was issued vide CB(1)734/07-08 on 30 January 2008.)

Follow-up to the meeting held on 8 January 2008

3. The Chairman said that at the special meeting of the Panel held on 8 January 2008 to receive an urgent briefing on the new Scheme of Control Agreements (SCAs) entered between the Government and the two power companies, Ms Emily LAU, who was a non-Panel member, suggested that the Panel should consider conducting public hearings for public views on the new SCAs. He invited members' view on Ms LAU's suggestion.

4. Mr WONG Ting-kwong noted that the Administration and the power companies had taken a long time to discuss and finalize the terms of the new SCAs and the public had expressed different views and comments on related issues after announcement of the new SCAs, including the high permitted rate of return and the low standard in the emission reduction requirement for the power companies. He believed that the Administration had taken note of the views and would follow up accordingly. As such, there was no need for the Panel to hold public hearings on the matter for the moment.

5. While agreeing that there was no room for further maneuver over the terms of the new SCAs, Mr SIN Chung-kai opined that it would be useful for the Administration to hear public views on related matters for future review and reference. He supported Ms LAU's suggestion.

6. Ms Miriam LAU recalled that the Panel had met with deputations previously to gauge their views on the new SCAs. While members should continue to listen to views from the public on the subject through different channels, it might not be necessary for the Panel to conduct public hearing sessions at this stage when the new SCAs had already been entered. Mr Abraham SHEK shared her view.

7. Mr Albert CHAN held a different view. He pointed out that there had been public concerns about the lack of transparency in the negotiation process between the Administration and the two power companies, as well as the high permitted rate of return and the long duration of the new SCAs. He supported the suggestion for the Panel to conduct a special meeting to hear public views on the new SCAs.

8. The Chairman put the matter to vote. Three members voted in favour of Ms LAU's suggestion, seven members voted against, and one member abstained from voting. The Chairman concluded that the Panel would not hold a special meeting to receive public views on the new SCAs at this stage.

II Information papers issued since last meeting

(LC Paper No. CB(1)672/07-08(01) - Administration's paper on Appointment to Hong Kong Tourism Board

LC Paper No. CB(1)529/07-08(01) - Tables and graphs showing the import and retail prices of major oil products from December 2005 to November 2007 furnished by the Census and Statistics Department

LC Paper No. CB(1)517/07-08(01) - Administration's paper on Competition Policy Advisory Group Report 2006-2007 (press release))

9. Members noted the above information papers issued since the last regular meeting.

III Items for discussion at the next meeting

(LC Paper No. CB(1)636/07-08(01) - List of outstanding items for discussion

LC Paper No. CB(1)636/07-08(02) - List of follow-up actions)

10. Members agreed to discuss the item on "Proposed shared-use of the Government helipad at the Hong Kong Convention and Exhibition Centre with commercial operators" proposed by the Administration at the next meeting to be held on Monday, 25 February 2008, at 10:45 am.

IV Facilitate ship finance in Hong Kong

(LC Paper No. CB(1)636/07-08(03) - Administration's paper on facilitation of ship finance in Hong Kong)

Briefing by the Administration

11. At the invitation of the Chairman, the Deputy Secretary for Transport and Housing (Transport) (DS/TH(T)) briefed members on the Administration's proposal to facilitate ship finance in Hong Kong by using export credit insurance more widely. She elaborated that a lot of Hong Kong shipowners ran vessels charter business which was a risky business as the capital outlay involved was substantial but performance was heavily influenced by economic cycles. In case of non-payment of charter money by the charterers, the shipowners would suffer from losses and might have to accept less favourable financing terms from banks for future credits. The Administration proposed to use the export credit insurance service provided by the Hong Kong Export Credit Insurance Corporation (ECIC), a non-profit making organization owned by the Hong Kong Government, to help share the risk of non-payment by charterers and facilitate shipowners in obtaining loans with more favourable terms from banks. It was expected that the proposal would help stimulate the demand for other maritime services and attract new fleet to register in Hong Kong in the long run. This would help open up great opportunities for Hong Kong's maritime services clusters and enhance Hong Kong's position as an international maritime centre. DS/TH(T) explained that chartering of vessels by Hong Kong shipowners was effectively a kind of service export from Hong Kong and therefore would be eligible for ECIC's service, which provided insurance protection to Hong Kong exporters covering exports of both goods and services. She added that a working group (the Working Group) had been formed under the Hong Kong Maritime Industry Council (HKMIC) to take forward the proposal. The Working Group held its first meeting in January 2008 to discuss related matters.

Discussion

Declaration of interests

12. The Chairman declared that he was the Chairman of the Advisory Board of ECIC. Mr WONG Ting-kwong also declared that he was a member of the same Board. Mr Andrew LEUNG declared that he was the Chairman of the Vocational Training Council (VTC), of which the Maritime Service Centre was responsible for manpower training for the shipping industry.

The proposal

13. Ms Miriam LAU, who was a member of HKMIC, said that HKMIC had deliberated matters related to the proposal in detail and the maritime industry was very supportive of the proposal. She considered that in addition to the measures implemented in the past years to help promote the development of the maritime industry, the present proposal could further enhance the position of Hong Kong as

an international maritime centre. It was believed that by enhancing financing support for Hong Kong shipowners, the demand for other maritime services like shipping registration under Hong Kong flag, ship brokering, ship management, and legal support would also be stimulated.

14. DS/TH(T) re-iterated that apart from attracting Hong Kong shipowners using Hong Kong's ship finance and other maritime services, the proposal could achieve a longer term objective of attracting new fleet to Hong Kong. This would open up great opportunities for Hong Kong's maritime services clusters and facilitate banks' financing business. She added that export credit insurance was particularly useful when the money market was tight or when banks were cautious about the business outlook. While providing export credit insurance to Hong Kong shipowners running charter business was the first step to facilitate ship finance in Hong Kong, the Working Group would consider other alternative measures for the purpose.

15. Noting that banks would usually provide loans and advances to Hong Kong shipowners who could produce time charters or long-term contracts on cargo shipment, and that only large-scale shipping companies operating fleets of mega vessels would need national financial back-up, Mr CHAN Kam-lam questioned the need of the proposal. He further considered that the proposal involved a number of issues but the Administration's paper had not provided sufficient information to address the concerns, particularly the economic benefits for Hong Kong, as well as liability of and risk exposed to ECIC. As such, it was difficult for members to give comments on the proposal. To facilitate members' consideration of the proposal, Mr CHAN requested the Administration to provide supplementary information, as follows:

- (a) The economic benefits for Hong Kong, in particular the quantifiable benefits, to be brought by the proposal;
- (b) How ECIC would conduct risk assessment and work out the relevant premium for shipowners' applications for credit insurance; and
- (c) The extent of possible risks ECIC would be exposed to under the proposal.

(Post meeting note: The supplementary information provided by the Administration was circulated to members vide CB(1)798/07-08 on 12 February 2008.)

16. DS/TH(T) remarked that the maritime sector was regarded as a high value-added sector in the Hong Kong economy and had brought about considerable benefits for a number of related sectors including banking, legal services, shipping management etc. While the maritime services clusters had contributed greatly to the economy, the benefits brought to individual sectors could not be assessed separately. She further highlighted that ship finance was a highly specialized service and banks would assess shipowners' credit risk professionally in line with international practices. As export credit insurance could help share the risk of

non-payment of charter money by charterers due to commercial and political events, it was believed that the proposal would help lower the financing cost for shipowners. On the concern about risks exposed to ECIC under the proposal, DS/TH(T) assured members that the Working Group would work closely with the industry, ECIC and the Administration to, inter alia, consider the risk that could be covered by export credit insurance and the extent this could help lower the financing cost, as well as the cover limit by ECIC for each individual case.

17. Sharing the view that the Administration's paper had not provided sufficient information, Mr James TIEN further expressed concern about the role of ECIC, which under the proposal provided Hong Kong shipowners with a second line of credits. In this connection, he questioned why chartering of vessels by Hong Kong shipowners was regarded as a kind of service exports from Hong Kong and whether ECIC would similarly provide credit insurance for players in other sectors such as local property developers engaging in business outside Hong Kong. He also enquired about the cover limit to be provided by ECIC and the estimated total liability in respect of providing credit insurance for Hong Kong ships.

18. DS/TH(T) clarified that ECIC would not provide direct financing to the shipping companies, which was the business of banks. The export credit insurance was to provide insurance protection for Hong Kong shipowners against the risks of non-payment by charterers due to commercial/political events or country risk. While banks would assess the company risk of Hong Kong shipowners in considering applications for credit, ECIC would conduct risk assessment on the company risk of the charterers to whom the shipowners had chartered their vessels in considering the applications from shipowners. Such risk assessment would be conducted on a case-by-case basis having regard to the credit rating and the past payment history of the charterers. While there would be no restriction on the extent of insurance protection to be provided to Hong Kong shipowners, ECIC would minimize its risk and cap its liability for each case. In fact, ECIC had already had successful experience in covering time charter for a Hong Kong registered shipping company in 1999. The company concerned had subsequently completed four contracts which had brought substantial benefits to Hong Kong. DS/TH(T) further said that unlike other service sectors, chartering of vessels by Hong Kong shipowners was a globalized business and effectively a kind of service exports from Hong Kong, thus eligible for the export credit insurance protection provided by ECIC.

19. Mr Albert CHAN was concerned whether the proposal could bring about real benefit to the Hong Kong economy. He pointed out that notwithstanding the rapid development of the maritime industry in recent years as evidenced by the robust growth in the number of new fleets registered in Hong Kong, such development had only provided tax haven and administrative convenience to Hong Kong registered shipping companies, the claimed benefit in terms of new employment opportunities for local people was not seen as related ship repair and maintenance services were not carried out in Hong Kong. He queried whether the proposal, which involved subsidizing a certain sector by public resources, would benefit Hong Kong registered shipping companies at the expense of the public interest. He considered that the Administration had to provide supplementary

information on the benefits to be brought to Hong Kong.

20. In response, DS/TH(H) stressed that there was no question of using public funds to support a particular sector. She explained that export credit insurance was an existing scheme created to support export trades involving substantive exports like toys and electronic parts. With the transformation of Hong Kong from a manufacturing-based economy to a service-based one, the scheme had been extended to cover service exports from Hong Kong. On economic benefits, DS/TH(T) re-iterated that the maritime industry was a high value-added industry and ships under Hong Kong flag had brought about business opportunities in various sectors like legal services, banking, ship brokering and management and ship surveying.

21. Noting that both product and service exports from Hong Kong could use the insurance protection provided by ECIC, Mr SIN Chung-kai sought details on risk assessment as well as sharing of risk between the Hong Kong shipowners and ECIC under the proposal. In particular, he was concerned whether the risk exposed to ECIC under the proposal would have impact on the traders of product and service exports through higher premium for export credit insurance.

22. In response, DS/TH(T) explained that currently Hong Kong registered companies engaged in offshore trades were covered by the export credit insurance provided by ECIC. Under the proposal, a vessel owning company registered under the Business Registration Ordinance was considered Hong Kong shipowner or Hong Kong registered company eligible for ECIC's insurance protection. As regards concern about the premium for the insurance protection, it would be set on a case-by-case basis in accordance with ECIC's internal guidelines and varied according to the types of vessels to be covered. In case ECIC had to shoulder total liability higher than the limit it could shoulder, it had to obtain further funding in the form of contingent liability from the Government. Addressing members' concern, DS/TH(T) confirmed that there was no question of subsidizing the shipping industry with public resources as ECIC would charge Hong Kong shipowners premium for the insurance service and as ECIC was not a profit making organization, profit-making would not be a consideration when setting the premium.

23. Mr WONG Ting-kwong commended the work of ECIC in supporting export trades through the provision of credit management services. Since providing export credit insurance for Hong Kong shipowners was a new development of ECIC, he stressed the need for the Administration to closely monitor the new scheme to ensure its implementation by experienced and professional staff well-versed in the operation of the shipping industry and the insurance business, so as to control the possible risk to be exposed to ECIC. Mr WONG cautioned that there were cases in which insurance protection was abused by companies to swindle for huge compensation.

24. DS/TH(T) stressed that ECIC had engaged market specialists to assess the company risk of traders in considering applications for insurance protection. DS/TH(T) undertook to convey Mr WONG Ting-kwong's concern to ECIC and

would urge it to step up staff training with a view to meeting the new challenges. Nonetheless, she assured members that the Working Group, comprising professional experts in insurance, would advise on ECIC's cover limit prudently with a view to minimizing the risks.

25. Mr Andrew LEUNG welcomed the proposal which would help attract more shipowners to register in Hong Kong and contribute to the growth of the overall economy. He was concerned about the extent of risks ECIC would be exposed to under the proposal, and enquired whether other insurance companies would be involved to share out the possible risks involved.

26. DS/TH(H) advised that the same prudent criteria applied in vetting applications for insurance protection for product and services exports would be adopted for applications from the shipping industry. She agreed that the credit limit set by ECIC for the shipping industry in respect of chartering business was low when compared to the construction cost of the vessels and shipowners should arrange re-insurance for the chartering contracts. Unlike ship building which involved much higher cost and thus exposing the insurance agency to higher risk, chartering of ships cost less and thus had a lower risk in terms of insurance protection.

27. In response to the Chairman's enquiry on the latest development of the shipping industry in Hong Kong in the past two to three years, including the number of newly-registered ships, the business scope and operation of these vessels, DS/TH(H) advised that from 1997 to 2007, the gross registered tonnage of ships registered in Hong Kong had grown over five times from 6 to 7 million gross tonnes to over 30 million gross tonnes. Following the establishment and operation of more companies in Hong Kong, the shipping industry had brought about 20 000 employment opportunities in legal, banking and other associated sectors. The port and maritime sectors contributed to over 2% of Hong Kong's Gross Domestic Product at present.

Way forward

28. Mr CHAN Kam-lam recapped his concern that the Administration should provide more information to facilitate members in considering the proposal. As the Working Group had just commenced its work, Ms Miriam LAU suggested that the Administration should report further details and concrete proposals to the Panel in due course. The Chairman said that while the subject under discussion was not a financial proposal, the Administration was invited to take note of members' view expressed at the meeting.

V Hong Kong Tourism Board Work Plan for 2008-09

(LC Paper No. CB(1)636/07-08(04) - Information paper on Hong Kong Tourism Board Work Plan for 2008-09

- LC Paper No. CB(1)636/07-08(05) - Paper on the Hong Kong Tourism Board prepared by the Legislative Council Secretariat (Background brief)
- LC Paper No. CB(1)715/07-08 - Administration's paper on Hong Kong Tourism Board Work Plan for 2008-09 (power-point presentation materials))
(*tabled at the meeting and subsequently issued via e-mail on 30 January 2008*)

Briefing by the Administration

29. At the invitation of the Chairman, the Commissioner for Tourism (C for Tourism) advised that the Government was examining the work plan of the Hong Kong Tourism Board (HKTB) for 2008-09. The Administration noted that the key programmes in the work plan, which included strengthening Hong Kong's position as the leading Meetings, Incentives, Conventions and Exhibitions (MICE) destination, accelerating the development of the cruise segment, stepping up collaboration with Pan Pearl River Delta, Macau and other Asian destinations on multi-destination itineraries, and expanding promotional effort to non-Guangdong and secondary cities in the Mainland etc., would tie in well with the initiatives in promoting further development of tourism as stated in the Chief Executive's Policy Address for 2007-08. The Administration was also pleased to note and welcome that in drawing up its work plan, HKTB had listened extensively to the views of various stakeholders, including the tourism-related sectors and other partners. The Administration was currently working with HKTB on its estimates for the financial year of 2008-09. The subvention for HKTB would form part of the Appropriation Bill 2008, the passage of which was subject to the approval of the Legislative Council (LegCo).

Presentation by the Hong Kong Tourism Board

30. At the invitation of the Chairman, Mr James TIEN, Chairman of HKTB presented HKTB's work plan for 2008-09. He said that in his former capacity as the Chairman of this Panel, members had time and again expressed views on the need to be briefed on HKTB's work. Taking note of members' views, HKTB had proposed to brief the Panel on its work plan for 2008-09. He advised that in drawing up the work plan, HKTB had conducted a series of consultation sessions with various tourism stakeholders since September 2007. The Board of HKTB (the Board) had also held a number of meetings, including the latest one on 24 January 2008, to consider and approve the work plan. The proposed marketing input for the various programmes for 2008-09 amounted to \$331.9 million while the fixed cost for the financial year was \$220 million, with the latter being relatively stable as compared with the past year's projected fixed cost of \$210 million. With members' support, HKTB planned to submit its work plan and estimates on income and expenditure to the Administration for approval by mid February 2008. Mr TIEN added that in case HKTB could not obtain the full subvention from the Government, it might consider deploying its reserve to meet

the shortfall. He then invited members' views on HKTB's work plan and the proposal in deploying its reserve. In the light of the relevant recommendations in the Director of Audit's Report No. 49 (Chapters 5 & 6) and the views expressed at the public hearings of LegCo's Public Affairs Committee (the PAC), Mr TIEN said that HKTB was implementing a series of measures to strengthen its internal control and monitoring systems taking into account the observations and recommendations in the PAC report upon its completion. HKTB management would submit quarterly progress report to its Audit Committee and the Board.

31. With the aid of power-point, Mr Anthony LAU, Executive Director of HKTB briefed members on the details of HKTB's work plan for 2008-09. He took members through the performance of Hong Kong's tourism industry in 2007 and the market outlook for 2008, HKTB's marketing strategies and resources allocation for 2008-09 in respect of major programme areas, viz. capitalizing on the opportunities of the 2008 Beijing Olympics, strengthening Hong Kong's position as the leading MICE destination and accelerating the development of the cruise segment, stepping up collaboration with Pan Pearl River Delta, Macau and other Asian Destination on multi-destination itineraries, enhancing the "Hong Kong-Live it, Love it!" marketing platform, injecting excitement through creative destination offerings, ensuring delivery of value and quality, strengthening partnerships with travel trade and initiate cross-selling with non-travel-trade partners, and carrying out strategic planning and research and other marketing support. As regard cost management, HKTB would continue to control cost vigorously through freezing its headcount, exploring new revenue streams and reducing Head Office marketing input. On performance measurement and tracking, HKTB was conducting a review on its performance measurement system including the existing four Key Performance Indicators (KPIs) with a view to formulating more specific KPIs for application in the 2009-10 work plan. It had also worked out the relevant parameters for monitoring and evaluating the effectiveness of the 2008-09 programme.

Discussion

2007 overview of Hong Kong's tourism industry and the outlook for 2008

32. Noting that HKTB was optimistic of the outlook for the tourism industry in 2008 with due regard to, inter alia, increased flight capacity, Mr Howard YOUNG however expressed concern about availability of movement slots in the Hong Kong International Airport which was approaching saturation. On the possibility of direct links between the Mainland and Taiwan, Mr YOUNG asked whether HKTB had assessed the possible impact of such development on visitor arrivals from these two markets and would formulate follow-up measures. Mr Anthony LAU responded that increasing air connectivity between the Mainland and Taiwan would surely have impact on the arrivals to Hong Kong. HKTB was at the moment studying the possible impacts and working out measures to minimize the negative effects, for example, by devising attractive packages for Taiwan merchants in Shanghai or Guangdong to take holiday breaks in Hong Kong before returning to Taiwan from the Mainland.

33. Noting that the hotel room supply had increased by around 9% to 51 506 rooms in end 2007, Mr CHAN Kam-lam sought information on the projected increase in room number for 2008 and 2009 to meet increased demand from the robust growth in visitor arrivals. C for Tourism advised that there was an additional supply of approximately 10 000 hotel rooms in the past 24 months. It was expected that the growth would sustain and the number of hotel rooms would be increased from 52 000 in 2008 to 61 000 by 2011. She further said that the Administration would encourage hotel development by including suitable sites designated for hotel development in the List of Sites for Sale by Application.

Marketing strategies of HKTB

34. Mr SIN Chung-kai welcomed HKTB's initiative in briefing the Panel on its work plan for the first time and supported HKTB to provide more information relating to its work in enhancing transparency and accountability. Noting that resources would be increased to sustain the growth momentum in high-potential markets and nurture the potential of new and emerging markets, Mr SIN sought elaboration on the details.

35. Mr Anthony LAU said that in 2007, the high-potential markets of South Korea and the Philippines, as well as emerging markets such as Russia and the Middle East, had performed strongly, with arrivals increasing by 21.9%, 21.8%, 12.8% and 23.7% respectively. He elaborated that in South Korea, the five-day working week had stimulated young people and young families to look for short-haul destinations to spend weekends. Following the success in 2007, HKTB would continue its campaign in promoting Hong Kong as the most preferred destination for weekend breaks for visitors from South Korea. Moreover, HKTB would collaborate with the tourism industry to launch in the second quarter of 2008 a pilot student travel itinerary for young families in South Korea, under which young children would take part in different activities to learn English during day time whilst their parents would visit various tourist attractions, and during evenings, the families would enjoy arranged activities together. Subject to positive response to the pilot programme, HKTB would consider increasing marketing input in this area. In respect of the emerging markets of the Middle East, HKTB had planned to appoint a representative in the area in 2008-09.

36. Mr Howard YOUNG recapped his concern about the need to facilitate the entry of visitors from new and emerging markets. Mr Anthony LAU pointed out that in nurturing new and emerging markets, concerted efforts from various parties were required to resolve different issues. In this regard, HKTB welcomed the Government's initiative to simplify the immigration procedures for visitors from Russia. HKTB would continue to maintain close liaison with the Government in stepping up work in this area. C for Tourism added that the Tourism Commission (TC) had reflected the concern of HKTB and the tourism industry to the Security Bureau about entry restrictions on certain groups of visitors to Hong Kong. She said that the Administration needed to strike a proper balance between ensuring security and promoting tourism development.

37. Mr CHAN Kam-lam recapped his concern that marketing input for a particular market should correspond with the number of visitor arrivals from the market. However, he noticed that despite more than half of the total visitor arrivals to Hong Kong in 2007 were Mainland visitors, only \$45.3 million or less than 15% of the total marketing expenditure for 2007-08 was spent on the Mainland market. Mr CHAN expressed concern about the allocation in marketing input and asked whether HKTB would consider making adjustment in 2008-09 accordingly.

38. Mr Anthony LAU highlighted that the level of marketing input for the Mainland would constitute 26% of the total marketing expenses for the Mainland and overseas markets for 2008-09, which was highest among the 19 source markets and represented steady increase as compared with the resources allocation in previous years. He stressed the need for HKTB to maintain a balanced portfolio of visitors from all key markets and earmark adequate resources to primary and secondary markets including the United States (the US) and the United Kingdom so as to counteract stiff competition from neighbouring destinations, as well as to emerging markets such as India and the Middle East in order to tap new visitor sources. In this connection, Mr James TIEN pointed out that due to lower cost of living, advertising and related marketing expenses in the Mainland were much lower than developed markets such as the US and European countries.

Strategic planning and support for HKTB's work

39. Mr WONG Ting-kwong noted with concern that Hong Kong, which was the leading MICE destination in the region, was facing increasing competition from Macau. To meet the challenges ahead, he urged HKTB to allocate more resources for conducting extensive marketing research and in-depth studies to track market trends. Sharing his concern, the Chairman noted that HKTB had recently met with the relevant authorities in Macau to promote the development of dual destination products for MICE visitors, and enquired about measures to promote Hong Kong to business visitors.

40. On the recent visit to Macau, Mr James TIEN and Mr Anthony LAU said that representatives of HKTB had met with the Chief Executive and principal officials of the Macau Special Administrative Region. At the meetings, the two sides had agreed to ride on the development of MICE facilities in the enclave and offer dual destination products in overseas markets. For instance, arrangements would be made for business visitors attending conference in Macau to visit and stay in Hong Kong for a one- or two-day shopping tour. Moreover, with a view to enhancing co-operation among Hong Kong, Macau and Guangdong in further development of tourism to achieve win-win situation for the three sides, regular meetings would be held to discuss matters of mutual concern and benefit.

41. On allocation of resources for strategic planning and research for 2008-09, Mr Anthony LAU advised that the proposed marketing input amounted to \$16.2 million. He elaborated that in setting the strategies and directions, HKTB would continue to adopt an information- and knowledge-based approach by gathering market intelligence and examining the market and segment potential. In

2008-09, HKTB would conduct a market study of Russia to understand better the changing needs and tastes of the visitors. In reply to the Chairman's further enquiry on the promotion work in Russia, Mr LAU said that HKTB had partnered with American Express to launch a publicity programme in Moscow in December 2007. Mr TIEN added that due to cost reasons, HKTB had taken a conservative approach at this initial stage by appointing a representative in Russia in 2007 before considering to set up an overseas office there. The expenses incurred in this regard were accounted under the marketing resources of HKTB rather than the fixed cost. He further advised that HKTB would usually conduct market studies to better understand the special needs of visitors from a particular market before planning and implementing promotional activities for the market. For example, as people in the Middle East were more concerned about personal safety, HKTB had stepped up effort in promoting Hong Kong as a safe city for tourists.

42. In view of the robust growth in the number of arrivals from the Mainland in recent years, Mr WONG Ting-kwong saw the need for HKTB to undertake research for strengthening the regulation of inbound Mainland tours in combating unscrupulous sales malpractices and eliminating zero-fare tour groups. C for Tourism highlighted the enhanced measures taken by the Administration and the tourism industry to tackle the problem. For example, the Customs and Excise Department and the Police had stepped up enforcement action to clamp down on the illegal practices employed by traders to deceive and mislead consumers. As far as regulation by the industry was concerned, consensus had been reached among TC, HKTB, the Consumer Council (CC) and the Travel Industry Council of Hong Kong on the need to strengthen regulatory measures for trade practice and to review existing legislation on consumer protection. Moreover, to provide quality alternatives to visitors, HKTB had rolled out the Honest and Quality Hong Kong Tours in the Mainland. These tourism products emphasized honest and high quality itineraries featuring "no designated shopping activities" in Hong Kong. In addition, CC and the relevant Mainland organizations such as the China Consumers' Association had co-operated in enhancing the publicity and education on smart consumption and consumer protection in the Mainland through various media, including hyperlinked websites.

HKTB's internal control and monitoring mechanisms, and cost management

43. Miss TAM Heung-man was pleased to note HKTB's determination to improve its image as a spendthrift as shown from the undertaking made by Mr James TIEN and Mr Anthony LAU at the PAC's public hearings to enhance HKTB's corporate governance, its work efficiency and cost-effectiveness in deploying public resources. Miss TAM sought elaboration on how the above commitment could be achieved through the 2008-09 work plan.

44. In this connection, the Chairman understood that the PAC's public hearings in relation to HKTB were still underway and there was no conclusion that HKTB was a spendthrift.

45. Mr James TIEN assured that HKTB had taken on board Members' view expressed at the PAC's meetings and it would spare no effort to make continuous improvements on its performance. On corporate governance, Mr TIEN advised that HKTB had re-delineated the power and responsibilities of its Chairman, Board members and Executive Director to address Members' concern. For example, unlike the past when the issuance of performance-based bonus for senior managers was solely determined by the Executive Director, under the new management, the matter would be decided by the Board at the recommendation of the Executive Director. Moreover, prior approval was required for staff to undertake overseas duty trips. The Board had also provided detailed guidelines on the use of entertainment allowance. In addition, to strengthen internal communication, the Deputy Executive Director should ensure that the confirmed minutes of the meetings of the Board and its committees were circulated for the information of all staff.

46. Regarding cost control, Mr Anthony LAU said that HKTB's fixed cost (including staff cost), which constituted the bulk of HKTB's expenditure, had remained relatively stable in the past few years. HKTB had no plan to change its staff establishment or increase its headcount in 2008-09. He further advised that the fixed cost for 2008-09 would be increased slightly mainly due to the rise in rents of HKTB's worldwide offices as a result of currency appreciation. In this connection, Mr Fred LI remarked that it might not be adequate just to contain staff establishment. HKTB should review whether the staff establishment and structure could be further downsized and streamlined, and whether staff remuneration packages were commensurate with the market rates. In response, C for Tourism advised that as far as she understood, salaries of HKTB's staff were at 80% of the market medium.

47. Mr Fred LI commended HKTB's effort in briefing the Panel on its work plan. While appreciating the practical difficulties for Board members to monitor the work of HKTB as they were non-executive members who did not directly involve in the daily operation of HKTB, he urged TC to exercise effective monitoring over the work of HKTB. In response, C for Tourism advised that HKTB had reviewed the role and function of the Board and its committees and strengthened its internal control systems to enhance cost-effectiveness. For example, in the implementation of HKTB's various activities, HKTB management would be required to report to the Board the implementation details if it had not followed the existing procedures or on matters where no prior approval had been obtained from the Board. Moreover, the Administration would continue to work closely with HKTB and monitor the development of new KPIs for measuring HKTB's performance.

48. Noting from the power-point presentation material that income from sponsorship and advertising was estimated to rise from \$10.9 million in 2007-08 to \$16.4 million in 2008-09, Mr SIN Chung-kai enquired about the major sources of sponsorship and advertising revenue.

49. On the income side, Mr Anthony LAU stressed that HKTB would continue its endeavour to identify new revenue streams, including soliciting sponsorship from appropriate commercial and media organizations to fund HKTB's events, activities and communications materials. For example, American Express had accepted the invitation to be the parade route sponsor for the forthcoming Chinese New Year Night Parade. Moreover, HKTB would increase advertising revenue by opening up more HKTB publications and DiscoverHongKong.com website for advertising, and arranging for advertising space in venue of HKTB's mega events.

50. On the concern raised by Mr CHAN Kam-lam about the low or even nil attendance of some Board members at the Board meetings, Mr James TIEN said that the Board acknowledged the concern and agreed to make arrangements for those members who could not attend Board meetings in person to take part in the discussion through video or telephone conferencing facilities. Regarding the appointment of members to the Board, Mr TIEN appreciated the Administration's prudence in its recent appointment of suitable representatives from the tourism industry to join the Board as new members. He was confident that members' attendance to the Board meetings would improve.

Performance measurement and cost-effectiveness of mega events

51. Noting from HKTB's projections that total visitor arrivals would increase by 8% to 30.4 million in 2008, Mr Fred LI was concerned whether the robust growth was a natural outcome given the popularity of Hong Kong to visitors, in particular for those from the Mainland, and whether the target could still be achieved without the marketing efforts of HKTB. He was keen to ensure that HKTB's work and marketing activities would be value for money.

52. On measuring the cost-effectiveness of HKTB's marketing expenditure, Mr James TIEN acknowledged that the current KPIs adopted by HKTB tended to reflect more the performance of Hong Kong's tourism industry as a whole rather than HKTB's performance as a marketing organization. As such, notwithstanding that HKTB would continue to use the four KPIs to track its performance, HKTB was currently conducting a review of its performance measurement system with the input from the tourism-related sectors and academics with a view to developing more specific KPIs.

53. While welcoming the briefing on HKTB's work plan which would enable members to have a better understanding on its work, Mr Albert CHAN pointed out that there had been much public criticism about HKTB as a spendthrift and the low cost-effectiveness of its activities. In particular, Mr CHAN did not subscribe to the need for HKTB to organize mega events. He considered that while these events might help promote Hong Kong's image as a tourism city, the claimed benefit of boosting visitor arrivals was limited especially during festive seasons like Christmas and Chinese New Year when there would be many tourists visiting Hong Kong anyway. He opined that HKTB should put more resources to help promote local events or tourist attractions which had great appeal to visitors but were unpopular due to the lack of marketing sponsorship, so as to enrich the experience for visitors.

54. On mega events, Mr Anthony LAU highlighted their role in enhancing the overall destination appeal of Hong Kong, building its brand equity and enriching visitors' in-town experience and satisfaction. He then introduced to members the new format for mega events and their implementation during summertime, Christmas/New Year and the Chinese New Year. Noting concern about the cost-effectiveness of mega events, Mr LAU said that HKTB was currently conducting a comprehensive review of the strategy for implementation of such events from 2009-2010 onwards. Mr James TIEN added that apart from inbound visitors, tens of thousands of local people had also taken part in enjoying the festive atmosphere of the mega events. Referring to the fireworks and New Year Countdown to 2008 against the backdrop of International Finance Centre, the Chairman was pleased to note that the event had been widely reported internationally, thus helped enhance the international image of Hong Kong and its appeal to visitors. Mr TIEN said that HKTB would make reference to the successful experience of the New Year Countdown event to actively solicit sponsorship for its activities. In this connection, the Chairman remarked that it would be difficult to clearly set out the quantifiable economic benefits of tourism development on the economy of Hong Kong. In reply to the Chairman's further enquiry, Mr Anthony LAU advised that tourism expenditure associated to inbound tourism was expected to rise from \$138 billion in 2007 to \$152.7 billion in 2008.

Way forward

55. Mr James TIEN sought the Panel's support for HKTB to seek the Government's approval for the proposed funding of about \$550 million for 2008-09, with \$331.9 million as the marketing resources and \$220 million as the fixed cost, and for HKTB to deploy its reserve to meet the shortfall if the full subvention from the Government could not be secured. Mr SIN Chung-kai expressed support for HKTB to seek Government's approval for the relevant funding proposal to further develop tourism in Hong Kong. He remarked that the briefing by HKTB on its work plan had helped enhance transparency of HKTB's work and operation.

56. Summing up, the Chairman thanked HKTB's representatives for the briefing and concluded that the Panel in general shared with HKTB's mission in promoting Hong Kong as a preferred travel destination worldwide and supported it to seek Government's approval for the proposed funding for 2008-09.

VI Any other business

57. There being no other business, the meeting ended at 12:40 pm.