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**Panel on Economic Development
Meeting on 17 January 2012**

**Background brief on the
Work plan of Hong Kong Tourism Board**

Purpose

This paper provides background information on the establishment and funding arrangements for the Hong Kong Tourism Board ("HKTB"). The paper also summarizes the views and concerns expressed by Members about the governance and work of HKTB when relevant issues were discussed at different forums of the Legislative Council ("LegCo").

Establishment of HKTB

2. HKTB was a statutory body established on 1 April 2001 under the HKTB Ordinance (Cap 302). It was reconstituted from and replaced the Hong Kong Tourists Association ("HKTA")¹.

3. According to the HKTB Ordinance, the objects of HKTB are to –
- (a) endeavour to increase the contribution of tourism to Hong Kong;
 - (b) promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;

¹ HKTA was set up as a membership organization in 1957. Consequent upon the completion of the Strategic Organisation Review in late 1999, the Board of Management of HKTA decided to abolish the membership system of HKTA and reconstitute it into HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes. While HKTA was an association of members, HKTB has no affiliation to any specific sector or organization within the industry.

- (c) promote the improvement of facilities for visitors;
- (d) support the Government in promoting to the community the importance of tourism;
- (e) support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) make recommendations to and advise the Chief Executive² in relation to any measures which may be taken to further any of the foregoing matters.

4. To achieve these statutory objects, HKTB's funding is mainly for marketing and promoting Hong Kong globally as a leading international city in Asia and a world class tourist destination. The detailed plans and programmes of HKTB are implemented by various functional units in the Head Office in Hong Kong as well as HKTB's 22 Worldwide Offices ("WWOs")³. HKTB maintains a close watch on global tourism trends, keeps track of competitors' activities, conducts extensive market research and analyses, and develops and implements the Board's marketing, business development and product development strategies.

5. According to HKTB's Annual Report 2010/2011, the governing body of HKTB is the Board⁴ which consists of 20 members. There are five committees established under the Board, namely, Audit Committee, Staff and Finance Committee, Marketing and Business Development Committee, Product and Event Committee, and Quality Tourism Services Committee. As at 31 March 2011, the establishment of HKTB was 226 staff. According to HKTB, it would maintain the headcount in its Head Office and WWOs in 2011-2012.

6. The Tourism Commission ("TC"), a functional unit within the Commerce and Economic Development Bureau and led by the Commissioner for Tourism, works closely with HKTB and some other

² The Chief Executive of the Hong Kong Special Administrative Region.

³ HKTB has a worldwide network of 16 offices (including Beijing, Shanghai, Guangzhou, Chengdu, Tokyo, Osaka, Seoul, Singapore, Taipei, London, Paris, Frankfurt, Los Angeles, New York, Toronto and Sydney) and has representatives in 6 markets (including New Delhi, Mumbai, Bangkok, Manila, Moscow and The Middle East) which handle travel trade, media and consumer enquiries.

⁴ The authority for the Chief Executive to appoint members of the Board and approve HKTB's Business Plan and Budget was delegated to the Financial Secretary in April 2001. The latter authority was further delegated to the former Secretary for Economic Development and Labour in July 2004 and then to the Secretary for Commerce and Economic Development (SCED) with effect from 1 July 2007.

organizations to promote the development of tourism in Hong Kong. The Government has appointed the Commissioner as a member of the HKTB Board since its establishment and the Commissioner is also a member of all the five Committees under the Board.

Funding arrangements for HKTB

7. HKTB's activities are primarily funded by the Government having regard to the needs of HKTB as presented in its work plan and annual budget⁵. The subvention for HKTB forms part of the Appropriation Bill, the passage of which is subject to LegCo approval. The Government may provide non-recurrent funding to support HKTB in implementing specific promotional activities. For the years from 2008-2009 to 2012-2013, the Government has earmarked \$30 million every year to HKTB to provide one-stop support for meetings, incentives, conventions and exhibitions ("MICE") events, assist in bidding for prestigious MICE events, generate attendance and promote cross-selling of tourism products. HKTB may collect fees for its services to achieve cost recovery as appropriate, solicit sponsorship for funding its events, activities and communication materials, and generate revenue by accepting advertisements in its publications and website, as well as in the venue of HKTB's mega events. For 2011-2012, HKTB aimed to achieve over \$56.5 million of commercial sponsorship income, an increase of 42.9% over the amount in 2010-2011.

Monitoring mechanisms

8. According to HKTB, there is an established mechanism of financial monitoring and internal audit to ensure cost-effectiveness of its promotional activities. Its work plan, budget, programmes, financial procedures, guidelines and progress of marketing are required to be vetted and monitored by the relevant committees established under the Board.

9. To track the effectiveness of the promotional programmes and activities, HKTB has established four objective Key Performance Indicators ("KPIs"), viz. visitor arrivals, length of stay, satisfaction level and spending of visitors. In 2009-2010, HKTB introduced a new performance measurement framework. In addition to the four KPIs, HKTB brought in a second tier of corporate performance indicators to measure the effectiveness

⁵ The HKTB's budgetary cycle dovetails with the Government's annual budgetary process. Under section 17B(1) of the HKTB Ordinance, HKTB is required to forward a programme of its proposed activities and estimates for the next financial year to the Government before the appointed date.

and performance of the HKTB's marketing programmes and activities by strategic focuses. Based on the strategic focuses of 2011-2012, HKTB has drawn up a set of objectives and results for measuring the effectiveness of its promotions and hence efficient use of public resources, the details of which are provided in LC Paper No. CB(1)1090/10-11(09).

10. Under section 18 of the HKTB Ordinance, the annual financial statement of HKTB has to be audited by an external auditor appointed by the Government. A copy of the statement of the audited accounts together with the auditor's report on that statement/accounts shall be laid before LegCo as soon as possible. Section 19 of the HKTB Ordinance provides that HKTB has to submit an annual report of activities to the Chief Executive, and SCED shall lay the report on the table of LegCo. In addition, HKTB is included in the list of "public bodies" under the Prevention of Bribery Ordinance, and is subject to the scrutiny of the Director of Audit ("DoA"). DoA carried out a value-for-money audit for HKTB in 2007. The audit findings are included in Chapters 5 and 6 in Report No. 49 of DoA⁶.

Work plans of HKTB

11. Under section 17B of the HKTB Ordinance, HKTB has to submit its annual work plans to SCED for approval. In drawing up the work plans, HKTB conducts extensive consultation with various tourism stakeholders, including travel agents, airlines, retailers, restaurants, attractions, as well as the academia.

2011-2012 work plan

12. According to the United Nations World Tourism Organization, international travel would increase moderately in the range of 4% to 5% in 2011. Asia was expected to achieve the best performance among all market regions, largely driven by the revitalised demand for intra-regional travel. Taking into account various factors of the macro environment, the impact of the travel-related policies, tourism trends and patterns of major source markets, as well as analyses and projections by international organizations, HKTB projected that visitor arrivals in 2011 would increase by 10% to 39.64 million.

13. HKTB's total marketing budget for 2011-2012 is \$341 million (about \$26.9 million less than that for 2010-2011), whereas the total

⁶ Report No. 49 of DoA on the results of value-for-money audits completed between March and September 2007 was tabled before LegCo on 28 November 2007.

marketing budget for 20 source markets for 2011-2012 is \$192 million (an increase of 4.3% over the amount in 2010-2011). The allocation of the marketing budget for the 20 key source markets that account for 95% of the arrival base in 2011-2012 is as follows:

Growth Markets	Emerging Markets	Established Markets	Secondary Markets
Mainland China Taiwan Australia South Korea Philippines	India Russia The Middle East Vietnam (<i>new</i>) The Netherlands (<i>new</i>)	Japan Singapore USA Canada UK	Germany France Malaysia Thailand Indonesia
2011-2012 Budget			
50.9%	17.2%	24.6%	6.2%

Note: The remaining 1.1% of marketing budget is allocated for non-key markets (e.g. Central and South Americas and Italy) and exchange reserve.

14. HKTB's major marketing strategies for 2011-2012 are –

- (a) maintaining investment in 42 high-potential cities across the Mainland⁷ and increasing investment in non-Southern China Regions, as overnight arrivals from these regions had been growing at an average annual rate of over 30%;
- (b) stepping up marketing efforts to promote the Quality and Honest Hong Kong Tours and run consumer education programmes in Central and Northern China;
- (c) enhancing awareness of the latest Individual Visit Scheme arrangements among non-Guangdong residents employed in Shenzhen;
- (d) increasing investment in emerging markets to enhance market penetration and capture new growth opportunities; and
- (e) expanding its marketing presence in India and the Middle East, as well as tapping into Vietnam and the Netherlands which offer great development potential.

15. In addition to the strategy of increasing market investment as mentioned above, HKTB has also planned to strengthen Hong Kong's

⁷ Mainland China contributed 63% of total arrivals to Hong Kong in 2010 and would remain the most important growth market in terms of arrivals and spending.

destination appeal, change mix of marketing communication to maximize reach and impact, re-align multi-destination development and promotion strategy, grow MICE business, build cruise demand, enhance business-building capabilities through effective trade support and partnership, uphold quality assurance, and strengthen corporate governance and cost management.

Discussion by LegCo Members

16. Members had raised questions at Council meetings on the operation of HKTB, the cost-effectiveness of additional funding for HKTB, as well as the remuneration for the Executive Director of HKTB. The LegCo Public Accounts Committee ("PAC") held 15 public hearings from December 2007 to February 2008 on Chapters 5 and 6 in DoA's Report No. 49 concerning HKTB. PAC requested the Administration to take various follow-up actions as set out in Part 4 of the PAC Report No. 49A.

17. The former Panel on Economic Services⁸ and the Panel on Economic Development ("the Panel") discussed the marketing campaigns and business/work plans of HKTB on 2 June 2005, 26 June 2006, 28 January 2008 and 19 January 2009. Panel members raised concerns about HKTB's promotion strategy in different source markets, marketing tourism products, performance measurement, corporate management and cost control. The major views and concerns expressed by Members on the previous work of HKTB are given in the LC Paper No. CB(1)908/09-10(06).

Panel members' views and concerns on the recent work plans of HKTB

2010-2011 work plan

18. The Panel discussed HKTB's work plan for 2010-2011 at the meeting on 25 January 2010. Some Panel members stressed the need to strengthen Hong Kong's appeal to tourists to withstand the competition from the opening of Universal Studio Singapore and the staging of Shanghai Expo. While considering the Shanghai Expo a golden opportunity to develop multi-destination itineraries and promote Hong Kong for visitors from long-haul markets, HKTB informed the Panel that it would adopt "Festive Hong Kong 2010" as its annual marketing theme to highlight Hong Kong's wide array of festivals and cultural celebrations. Its mega events or key promotions would tie in with Chinese traditional festivals and cultural

⁸ The Panel on Economic Services has been renamed as the Panel on Economic Development with effect from the 2007-2008 session.

celebrations. A Panel member expressed concern that as it would take time for the global economy to revive, what HKTb would plan to resume investment in the long-haul markets. HKTb advised that it was crucial to allocate appropriate promotional resources in these markets to sustain awareness of the destination brand of Hong Kong.

2011-2012 work plan

19. When the Panel discussed HKTb's work plan for 2011-2012 on 24 January 2011, HKTb advised that it would increase investment in non-Southern China regions, expand geographic coverage in emerging markets and tap new markets. On measures to strengthen Hong Kong's destination appeal, HKTb planned to adopt a new thematic marketing platform "Asia's World City" in 2011-2012 and inject new elements and programmes into its annual events calendar. To maximize reach and impact in 2011-2012, HKTb would increase focus on digital marketing, expand partnership with global and regional TV networks.

20. Some Panel members considered that the record-high visitor arrival rate in 2010 was brought by the appreciation of Renminbi and some other foreign currencies and might not be sustainable. These members urged HKTb to host more appealing events during the non-peak seasons to draw more visitors and to encourage those Mainland visitors who normally travelled on one-day journeys to spend more time in Hong Kong. Noting a reduction in expenditure for its Head Office from \$178.3 million in 2010-2011 to \$149.2 million in 2011-2012, members urged HKTb to streamline the operation of its offices and utilize more of the Internet services to promote Hong Kong.

Latest development

21. Media reported on 28 August 2011 that the Avenue of Stars ("AOS") had been ranked second in the "World's 12 worst tourist traps" list by "CNNgo.com", a travel and lifestyle website. AOS was commented by the website as "designed with mainland Chinese tourists in mind", and "a lack of comfortable resting areas and focus on souvenir photo booths makes the whole experience about as satisfying as a sneeze that doesn't quite come out". According to the news reports, HKTb would discuss with the management company of AOS for improvement measures.

22. Vice-Premier Mr Li Keqiang announced during his visit to Hong Kong in August 2011 that increased efforts would be put in to support the

development of Hong Kong as a homeport for cruise tourism. During the policy briefing on the 2011-2012 Policy Address at the Panel meeting on 14 October 2011, the Administration indicated that more resources would be allocated to HKTB to enhance Hong Kong's appeal to cruise lines and tourists.

23. The Panel will discuss on 17 January 2012 the work plan of HKTB for 2012-2013, the overview of Hong Kong tourism industry in 2011 and the outlook for 2012.

References

24. A list of the relevant papers with their hyperlinks is in http://www.legco.gov.hk/database/english/data_es/es-hktb.htm.

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