

5 January 2021

Ms Wendy Jan
Council Business Division
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central

Dear Ms Jan

Subject: Ch. 7 “Hong Kong Tourism Board: Corporate governance and administrative issues” and Ch. 8 “Hong Kong Tourism Board: Efforts in promoting tourism” in the Director of Audit’s Report No. 75

Thank you for your letters with inquiries on the captioned reports dated 23 December 2020. On behalf of the Hong Kong Tourism Board (HKTB), I am writing to provide further details.

The HKTB would like to express its gratitude to the Public Accounts Committee (PAC) for its enquiries. The HKTB attaches great importance to the recommendations raised in the Director of Audit’s Report No. 75 and has taken the following action to follow up on the recommendations:

- The HKTB set up a taskforce, led by the Executive Director and comprising all department heads, to examine each of the Audit Commission’s recommendations and to formulate an appropriate action plan for follow-up work.
- Regarding the 38 recommendations in the Report, the HKTB has completed the follow-up action on 15 recommendations and expects to complete the follow-up on 17 other recommendations by June 2021. The remaining 6 recommendations are expected to be completed in the 2021–22 financial year.
- The taskforce led by Executive Director will closely monitor the progress of the follow-up work and will regularly report to the Audit Committee, the Board of Directors, and the Government on the progress, and will then report to the PAC through the Commerce and Economic Development Bureau.

Regarding the information requested by the PAC from the HKTB, please refer to Appendix A for that on Ch. 7 “Hong Kong Tourism Board: Corporate governance and administrative issues”, and Appendix B for that related to Ch. 8 “Hong Kong Tourism Board: Efforts in promoting tourism”.

Yours sincerely,



Dane Cheng
Executive Director
Hong Kong Tourism Board

cc: Secretary for Commerce and Economic Development (email address: sced@cedb.gov.hk)
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Appendix A

Reply to the Public Accounts Committee of the Legislative Council on Inquiries and Request of Information on Chapter 7 of the Director of Audit's Report No. 75-

“Hong Kong Tourism Board: Corporate governance and administrative issues”

Part 2: Corporate Governance

1) It is mentioned in paragraphs 2.4(a) and 2.4(b) that the appointment and the re-appointment of Industry members of the Quality Tourism Services Committee were not always made in a timely manner. In the period from 2015-2016 to 2019-2020, there were delays in the appointment of six members and the re-appointment of three members. The average period of vacancy of membership was four months. After the retirement of the Chairman of the Audit Committee in March 2019, a new Chairman was appointed only in July the same year. The Audit Committee was operating without a head during the three-month interim period. Were there any difficulties encountered in the process of appointing the Chairmen and members of the Committees? What improvement measures can be taken at present?

Reply:

As mentioned in paragraphs 2.4(a) and (b) of the Director of Audit's Report, the industry members of the Quality Tourism Services (QTS) Committee and the Chairman of the Audit Committee were not appointed in a timely manner. It is true that in certain cases, the process of finding a suitable candidate and handling the nomination process takes time. Some of the candidates invited take a longer time to consider whether to take up the relevant public duty. For example, between the 2015–2016 and 2019–2020 financial years, three candidates declined to serve on the QTS Committee after consideration. Therefore, the committee needed to find other candidates and start the invitation process again, resulting in a longer time to confirm the appointments.

In response to the recommendations in the Director of Audit's report and to ensure that sufficient time is allowed for the completion of the appointment or

reappointment process for industry members, the QTS Committee Secretariat initiates the candidate selection process 6 months before the departure of industry members to ensure that a suitable successor is confirmed at least 1 month before the departure of the outgoing members.

For the committee chairman, the HKTB confirms the successor 1 month before the departure of the incumbent chairman.

- 2) According to paragraph 2.12, the Board/Committee minutes of 126 meetings held in the period from 2015-2016 to 2019-2020 showed impropriety in the management of conflict of interest in 17 meetings. In two of these meetings, the decisions on handling conflict of interest were documented in the meeting minutes, but the rationales behind the decisions were not documented; in five meetings, the decisions on handling conflict of interest and the rationales behind the decisions were not documented in the minutes, and although the persons concerned abstained from discussion or voting, they had not withdrawn from the meeting; and in the remaining 10 meetings, not only had the persons who had conflict of interest not withdrawn from the meeting but they had also participated in discussion or voting. What is the basis for the corresponding measures adopted in respect of the declared interest in the 17 meetings? Given that the guidelines provided in the Code of Conduct for Board Members for handling relevant matters are not clear enough, has the Hong Kong Tourism Board ("HKTB") considered making improvements to the Code of Conduct for Board Members?

Reply:

With regard to paragraph 2.12, the minutes of the 126 board and committee meetings between the 2015–16 and 2019–20 financial years revealed that the handling of conflict of interest declarations was found to be inadequate in 17 meetings. In fact, the HKTB requires its members to comply with a two-tier system of declaration of interest in accordance with the Code of Conduct for Board Members:

- i. All members are required to declare any potential conflict of interest upon appointment and annually thereafter; and
- ii. All members are required to declare whether they have a conflict of interest

before discussion commences at each meeting. If there is a declared conflict, the Chairman makes a ruling on whether the members concerned must withdraw from the meeting, whether they can participate in the discussion, and whether they can vote.

In accordance with these requirements, members with conflicts of interest in the 17 meetings declared such conflicts in compliance with the two-tier system, and the board or committee chairmen made rulings accordingly (including rulings that withdrawal from the meeting was unnecessary, or that participation in discussion or vote was allowed). However, the board or committee secretaries did not clearly document the details of the rationale for the related decisions.

Since July 2019, to strengthen the declaration system and improve the relevant guidelines, the HKTb has sought advice from the ICAC. Upon receiving the guidelines on the requirements for documenting the rationale behind decisions made for conflicts of interest declared from the ICAC in July 2020, the Board secretary has fully implemented the guidelines in August 2020.

- 3) According to paragraph 2.21, the Commerce and Economic Development Bureau ("CEDB") has not entered into a memorandum of administrative arrangements with HKTb in accordance with Financial Circular No. 9/2004 since the establishment of HKTb in April 2001. What are the reasons for that? What do the established practices and guidelines mentioned in paragraph 2.24(a) refer to specifically?

Reply:

In paragraph 2.21 concerning the recommendation to enter into a Memorandum of Administrative Arrangements with the Commerce and Economic Development Bureau (CEDB), the CEDB will provide its response on the matter.

Part 3: Human Resources Management and Other Administrative Issues

- 4) According to Table 6 of paragraph 3.6, the mid-points of all job levels' salary ranges of HKTb's Taipei Worldwide Office ("WWO") were over 115% of the market median and exceeded the acceptable deviance range by as many as 14 to 56

percentage points. Could you explain why this situation occurred? What current adjustment has HKTB made to the salaries of staff in the Taipei WWO?

Reply:

The HKTB established a pay structure with salary range of different job levels, in which the minimum and maximum salaries for each job level are 75% and 125% of the mid-point of the salary range. With regards to the setting of the salary range mid-point, the HKTB makes reference to the market level, so that the salary range mid-point for each job level falls within 85% to 115% of the market median.

According to Table 6 in paragraph 3.6, the salary range mid-point of all job levels of staff in the HKTB's Taipei office exceeded the acceptable deviance range, i.e. exceeding 115% of the market median. This refers to the pay structure but not the actual salaries of the staff.

This was mainly because the pay structure for staff in the HKTB's Worldwide Offices (WWOs) has not been reviewed since 2006. As the job market and economic situation have changed since 2006, when the HKTB conducted a review of the pay structure for its WWOs, the salary range mid-point of the Taipei office was found to exceed the market level in 2018 and hence has immediately been rectified.

In fact, when determining salary offer for its employees, the HKTB does not adopt a pay point system. Instead it follows market practice, which takes into consideration the candidate's experience, and the current and expected salary to determine the respective salary to be offered. Comparing the 2018 pay structure review results and the actual salaries of all staff in the Taipei office in 2018–19, the **actual salaries** did not deviate from the range between 75% and 125% of the salary range mid-point for their respective job levels. Therefore, the HKTB did not need to adjust the salaries of the Taipei office staff at the time.

Now, the salary range mid-point for all job levels in the HKTB's WWOs now falls within the acceptable deviance and stays similar with the market level.

In the April 2018 and May 2019 meetings, the Staff and Finance Committee approved the recommendation to review the pay structure for Head Office and WWO staff every three years, and the HKTB adopted and implemented the recommendation.

- 5) According to Table 8 of paragraph 3.19, in the period from April 2019 to June 2020, HKTB was late in submitting to the Inland Revenue Department ("IRD") the notifications for 88 staff who ceased to be employed, with 69% of them having been late for 31 to 333 days. What were the reasons for HKTB failing to submit in a timely manner the notifications to IRD according to the requirements stipulated in the Inland Revenue Ordinance (Cap. 112)? What specific improvement measures have currently been taken to ensure that a similar situation will not recur?

Reply:

According to Table 8 in paragraph 3.19, some notifications relating to employees were not submitted in a timely manner to the Inland Revenue Department (IRD) as required by the Inland Revenue Ordinance (Cap. 112). The HKTB agrees that there is room for improvement.

Since July 2020, the HKTB has reminded heads of all departments to inform the Human Resources Department as soon as possible of any employee's decision to resign. The Human Resources Department then immediately notifies the IRD upon receiving written notification of the employee's departure and updates any changes to the relevant information upon confirming the final payment for the employee's last month of service.

- 6) According to paragraph 3.27(b), 30 items of portable electronic equipment of two user departments could not be located and the attempts to find them failed eventually. Had the procuring department of HKTB identified the uses of the equipment concerned prior to its procurement? Had any thorough investigation been conducted and accountability been sought for this batch of missing portable electronic equipment? Had any responsible officers of the relevant departments been held accountable? What lessons has HKTB learnt from this incident?

Reply:

Regarding 30 pieces of portable electronic equipment that could not be located, mentioned in paragraph 3.27(b), 7 of them were used to assist in mega events, and the remaining 23 were used by the Digital Marketing Department for testing in their daily work.

The HKTB found out that the equipment concerned was lost in an internal audit in late 2017. An immediate inquiry and thorough investigation by the Internal Audit Department and the Finance Department with the related staff concluded that the equipment has been misplaced and then mistakenly disposed of. The investigation report was submitted to the Audit Committee in March 2018 for discussion, and all members of the Audit Committee agreed with the conclusion of the investigation.

Although the equipment concerned had been purchased for a long time and the net book value has depreciated to a very low value, the HKTB takes the incident very seriously, as the lost equipment was purchased with public money. To avoid similar incidents from happening again, the HKTB strengthened the monitoring and control of its fixed assets (especially portable electronic equipment). In April 2018 a custodian system was introduced, whereby each piece of portable electronic equipment is assigned to a specific person, who is responsible for safekeeping and maintaining it. The related information is centrally documented, and the department heads are required to conduct regular checks with the custodians of the equipment, during which the custodians are required to present the equipment to show that it is well kept. A post-checking report is submitted to the Finance Department for records purposes. Also, the Internal Audit Department regularly conducts auditing of the HKTB's fixed assets.

- 7) According to paragraph 3.29, the percentage of the number of slow-moving inventories stored in a warehouse increased from 14.8% in 2015 to 19.7% in 2019, and the percentage of the number of inventories aged 36 months or more increased more than sixfold from 0.7% to 5.3% during the same period. Had HKTB assessed the actual demand for publicity materials and promotion materials for its events prior to the production and distribution of such materials? If yes, what were the criteria for assessment? If no, on what basis did HKTB ascertain the specific quantity of publicity materials and event promotion materials to be produced over the years?

Reply:

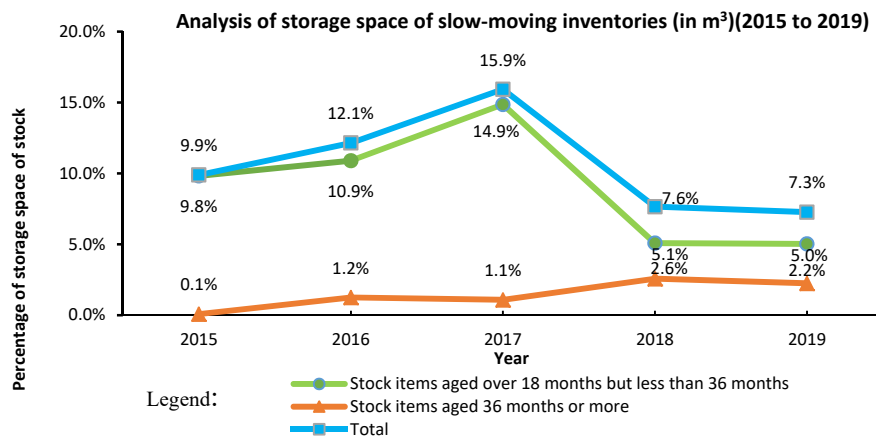
In response to paragraph 3.29 about an increase in slow-moving inventory stored in the warehouse, the HKTB has always made its best efforts to estimate an adequate amount of publicity and promotional materials based on actual need and past

experience. The estimation of the required quantity every year is based on the following considerations:

- During the course of procurement, reference is made to the actual quantity used in related events in the previous year;
- The actual quantity ordered is further determined according to any changes in the scale and duration of the event or promotional campaign in the year; and
- If the materials are to be distributed in source markets, the HKTB consults the related worldwide offices (WWOs), which recommend a quantity, which is taken into consideration by the Head Office.

The increase in warehouse usage in 2017 was mainly due to the need for more space to store new inventory items for a new event, the Hong Kong E-Sports & Music Festival, which was held for the first time in 2017, and for the tourism promotions celebrating the 20th anniversary of the establishment of the Hong Kong Special Administrative Region.

As inventory costs are calculated based on **area-capacity**, not the number of items, it is more appropriate to assess the usage based on cubic metres. The warehouse occupancy of slow-moving inventory dropped from 15.9% in 2017 to 7.3% in 2019, as shown in the following chart.



Since the HKTB adopted more stringent inventory control measures in June 2019, the overall inventory level (in terms of cubic meters) fell by 17.9%.

Part 4: Worldwide Offices and Representative Offices

- 8) According to Table 13 of paragraph 4.10(c), the office area per staff of HKTB's New York WWO was 65.31 square metres, and the accommodation cost per staff was as high as HK\$377,500. Does HKTB consider that such costs are at an acceptable level with no room for reduction?

Reply:

Regarding the Director of Audit's recommendation about the size and average office space cost per person of the HKTB's New York office, which is reflected in Table 13 of paragraph 4.10(c), the HKTB agrees with the recommendation, and as a result, the HKTB exercised the break clause in the contract, which is applicable five years after the lease came into effect. After negotiation, the HKTB reached an agreement with the owner of the New York office in December 2020 that the office space will be cut in half starting in June 2021, when five years will remain on the lease. The new agreement will replace the 10-year lease signed in 2016 and will provide office space for the two employees in the New York office, instead of the original team of four.

- 9) In response to the audit recommendation in paragraph 4.19(a) that HKTB should promulgate guidelines on the accommodation arrangements (e.g. the area and grade of office accommodations) of WWOs, HKTB stated in paragraph 4.20(a) that it was difficult to standardize the ratio of premises cost per member of staff across all WWOs. What surveys had HKTB conducted on various markets and space requirements for various WWOs before drawing this conclusion? Does this mean that it is impossible to set a limit on the expenditure of WWOs? Is there any mechanism currently in place to monitor and assess the accommodation costs of WWOs? If there is, does HKTB agree to review and update the relevant mechanism as appropriate? If not, what improvement measures may be taken in future?

Reply:

In response to paragraph 4.19(a), the HKTB stated that it was difficult to standardise the space-cost ratio across all WWOs, as the rental market situation and practices are

not the same in the different markets. In addition to the difference in rental rates, the layout of commercial buildings in the various markets vary. In some cases, facilities such as washrooms and pantries are located inside the offices, while other offices share facilities outside the offices, making it hard to standardise the space–cost ratio across all WWOs.

Nevertheless, in order to better control the rental expenses of the offices, the HKTB will endeavour to identify similar units available in the market (e.g. in terms of size, location, and the level of the unit in the commercial building) at the time of each lease renewal for comparison and selection of value-for-money units. The cost-effectiveness of the one-off cost of moving offices will also be taken into consideration. With regard to the approval procedure, if a lease is longer than 5 years and its total value exceeds HK\$5 million, the related information will be submitted to Staff and Finance Committee for approval.

In light of the pandemic, the HKTB is conducting a thorough review of Hong Kong’s tourism positioning and investment strategies in visitor source markets, including the arrangements for WWOs to ensure the prudent use of public money.

Others

10) The Director of Audit pointed out in his Report No. 49 published in 2007 that there were a number of corporate governance and administrative issues that plagued HKTB, and some of the issues resurface in this year's report. What measures had HKTB and CEDB, which is responsible for overseeing HKTB, taken to follow up on the implementation of the recommendations in the Director of Audit's Report No. 49? Why do the same issues resurface now?

Reply:

In the Director of Audit’s Report No. 49, published in 2007, the Director of Audit provided various recommendations on the governance and administration of the HKTB, which the HKTB has been committed to implement over the years. However, over the past years, some of the administrative issues arising from the implementations are not completely faultless. Therefore the HKTB is grateful to the Audit Commission for conducting another audit of the HKTB in 2020. The HKTB will follow up on the recommendations of the Audit Commission and continue to

improve its work.

The HKTB set up a taskforce, which is led by the Executive Director and comprising all department heads, to examine each of the recommendations of the Audit Commission and formulate an appropriate action plan for follow-up work. Regarding the 38 recommendations in the Director of Audit's Report, the HKTB has already completed follow-up action on 15 of them and expects to complete its follow-up on 17 other recommendations by June 2021. Follow-up on the remaining 6 recommendations is expected to be completed in the 2021–22 financial year. The taskforce led by the Executive Director will closely monitor the progress of the follow-up work and regularly report to the Audit Committee, the Board of Directors and the Government, and will then report to the PAC of the Legislative Council according to established procedures.

Appendix B

Reply to the Public Accounts Committee of Legislative Council on Inquiries and Request of Information on Chapter 8 of the Director of Audit's Report No. 75

“Hong Kong Tourism Board: Efforts in promoting tourism”

Part 2: Mega Events

- 1) According to paragraph 2.6, the Hong Kong Tourism Board ("HKTB") organized mega events on a yearly basis around the same time of the year. However, the timing of placing open invitation for title sponsorship varied from year to year. Audit recommended that the most appropriate timeframe of inviting title sponsorship for mega events be set out and sufficient time be provided to interested parties for submission of expression of interest("EOI"). HKTB also responded that it would standardize the timeframe for placing invitation for the title sponsorship. In fact, the themes and dates of various mega events for each year are more or less the same. Will HKTB draw up annual schedules of events setting out the respective dates of invitation for title sponsorship, and make public at the beginning/end of each year such event schedules and deadlines for placing open invitation of title sponsorship for the coming year, so that both large and small companies will have enough time to consider and earmark budgets for event sponsorship? Apart from standardizing the timeframe for placing open invitation for the title sponsorship of events and providing a longer time for potential parties to submit EOI, will HKTB take any other measures to solicit higher amounts of cash sponsorship or in-kind sponsorship for mega events? If yes, please advise the details of such measures.

Reply:

The HKTB agrees with the audit recommendation to standardise the timeframe for placing open invitations for the title sponsorship of events and has decided to take the following measures:

- Starting from 2021, at the end of first quarter of the year, i.e. after the review of the HKTB Work Plan by the Legislative Council and the announcement of the Budget by the Government, the HKTB will publish the schedule and related information about the mega events that require title sponsorship in that financial year on its website for the reference and consideration of interested parties.
- The HKTB will place open invitations for title sponsorship on its website and in newspapers nine months before the event date. The submission deadline for

expressions of interest will be extended from three weeks to six weeks after the open invitation is placed to provide sufficient time for potential sponsors to prepare their submissions.

- In view of the evolving market situation caused by the COVID-19 situation in 2020, the HKTB has remained agile about event planning. In 2021, the HKTB will continue to update its website to provide information on changes to mega events, including the staging of new events, to allow interested parties adequate time for consideration and to allow the HKTB to secure suitable sponsors as soon as possible.

2) According to Table 3 of paragraph 2.10, among the 32 mega events completed in the period from 2015-2016 to 2018-2019, HKTB provided less event budgetary information year on year to the Product and Event ("P&E") Committee when seeking approval for event implementation. In a total of 20 mega events, no budgetary information was provided. In particular, not even one of the nine mega events completed in 2018-2019 was provided with any budgetary information.

Government subvention is a major source of income of HKTB. To make proper use of public funds, it is necessary for the Committees under the Board of HKTB to know whether the cost budgets and the allocation of expenditure are reasonable. How did HKTB and the P&E Committee, which was responsible for approving the events, assess if the events were value for money, and how did they control the overall expenditure of the mega events? Without budgetary information, how did HKTB and the P&E Committee assess if there was excessive spending and/or cost overrun in respect of such mega events?

According to paragraph 2.16, HKTB responded that it would enhance the information provided to the P&E Committee in future, including more budgetary details. What is the progress of its follow-up actions? Has it formulated any guidelines on information submission or any criteria for submission of budget breakdown setting out the required event information and budget details?

Reply:

The HKTB agrees with the audit report's recommendation to provide event budgetary information to the Product and Event (P&E) Committee and implemented this recommendation when organizing the "Hong Kong Wine & Dine Festival", which was held in November 2020.

Although the budget and actual expenditure of all individual events are not provided to the Committee, the budgets of mega events are covered in HKTB's annual Work Plan, as well as additional funding submitted to, and approved by, the Government and the Board every year. This is the basis on which the HKTB prudently plans event expenditure. The HKTB also submits an interim report to the Board with the

latest budget and expenditure for each business area; and the actual expenditure and the latest estimated expenditure for each mega event is included.

In addition to the provision of event budgets and expenditure to the Committee, as recommended in the audit report, the HKTB will take the following measures:

- Establish a set of standardised performance indicators and items that require the Committee's review, including the budget, expenditure and revenue for each event;
- Submit the related information to the Committee for review at least two months before the event dates; and
- Submit a post-event report, which presents the results of all performance indicators and items under the scope of review, to the Committee within three months after the completion of the events.

3) Apart from failing to provide budgetary information to the P&E Committee in all the nine mega events completed in 2018-2019 as mentioned above, it was also stated in paragraph 2.18 that HKTB did not report to the P&E Committee the achievement in event awareness of most events (the achievement was only reported for one mega event (i.e. "e-Sports and Music Festival Hong Kong")) and the actual expenditure on all the nine events. In addition to relying on the established mechanism or framework to measure the performance of the mega events, had the P&E Committee of HKTB measured the financial performance of the mega events? Had it assessed the budget allocation of the events for the coming year based on previous financial expenditure? If not, does HKTB agree that the continuous decrease in the awareness of most mega events is attributable to the absence of a well-established mechanism or framework at present to measure the performance of mega events?

Reply:

The HKTB's mega event budget is based mainly on each event's expenditure in the previous year and the estimated scale and major elements of the event to be held in the coming year. As the key objectives of staging mega events are to enrich Hong Kong's tourism appeal, strengthen its status as the Events Capital of Asia, and enhance the city's overall tourism image globally, hence, the HKTB will continue to adopt following 11 performance indicators to measure the outcome of each of its mega events.

- i. event awareness;
- ii. event satisfaction;
- iii. destination image of Hong Kong;
- iv. enhanced satisfaction about Hong Kong due to the event;
- v. likelihood of participating in similar event in next visit to Hong Kong;

- vi. recommend event to friends and relatives;
- vii. satisfaction of Hong Kong trip;
- viii. revisit Hong Kong intention;
- ix. recommendation of Hong Kong to friends and relatives;
- x. visitor's split (i.e. percentage of non-locals in the event attendance); and
- xi. perception of event as an Asia's signature event.

Besides, the HKTb is conducting a review of the tourism positioning of Hong Kong and its overall promotion strategies, the scope of the review will cover mega events, and an evaluation of the financial return will be included to assess the performance of mega events in future.

- 4) Further to the previous question and according to paragraph 2.29(e), HKTb responded that as it was conducting a review of the tourism positioning of Hong Kong and its overall promotion strategies, before the review was completed, all mega events would be assessed against a set of performance indicators approved in 2018. What is the schedule for completing the review? Will the performance indicators for assessing mega events be updated as well when the aforesaid review is completed? If yes, will the return on financial investment be added to the set of performance indicators for use as reference for preparing budgets or measuring the proportion of expenditure when the same mega event is held again in the coming year?

Reply:

In addition to this follow-up action, the review of Hong Kong's tourism positioning and overall promotion strategies will take into consideration the audit recommendations on mega events. The review is expected to be completed by the third or fourth quarter of 2021.

- 5) Regarding the countdown fireworks mentioned in paragraph 2.11, please provide information about the following expenditure:
- (a) organizing and staging expenses;
 - (b) local promotion and marketing expenses;
 - (c) overseas promotion and marketing expenses;
 - (d) other expenses; and
 - (e) total expenditure.
- 6) Regarding the digital countdown and the lucky draw mentioned in paragraph 2.11, please provide the following information:
- (a) organizing and staging expenses;

- (b) number and cost of lucky draw prizes;
- (c) number and total value of prizes given out;
- (d) local promotion and marketing expenses;
- (e) overseas promotion and marketing expenses;
- (f) other expenses; and
- (g) total expenditure.

Reply:

The expenditure for the New Year countdown fireworks and lucky draw in the “Hong Kong New Year Countdown Celebrations” for 2019/20 was as follows:

	Countdown fireworks	Digital countdown and lucky draw
Organising and staging expenses	HK\$11 million (note 1)	HK\$ 7.18 million
Number and cost of lucky draw prizes	N/A	20,540 HK\$3.54 million
Number and total value of prizes given out	N/A	14,214 Around HK\$3.43 million (note 2)
Local and overseas promotion and marketing expenses (Since the “Hong Kong New Year Countdown Celebrations” covered two major elements – the countdown fireworks and a lucky draw, the promotion was conducted as one event and carried out regionally, so the total promotion budget of entire event is provided.)	HK\$2.57 million	
Total expenditure	HK\$20.75 million	

Note 1: The organising cost of last year’s “Hong Kong New Year Countdown Celebrations”, which featured a fireworks display as the key highlight, was about HK\$16 million. In view of the uncertain social situation in 2019, the countdown fireworks display was cancelled and replaced by an enhanced version of “A Symphony of Lights”. However, since the fireworks production had been completed, the related fee had to be paid.

Note 2: There were 6,326 expired unclaimed prizes, over 98% of which were \$100 supermarket coupons. Those prizes are now in the custody of the Finance Department for future marketing purposes.

7) Please advise how many planned mega events were cancelled eventually since the outbreak of social events in Hong Kong in 2019, and provide the following information about the various mega events which were cancelled during the said period:

- (a) original mega event date;
- (b) mega event cancellation date;
- (c) estimated and actual organizing and marketing expenses; and
- (d) loss of estimated revenue and sponsorship due to event cancellation.

Reply:

In view of the social events and the COVID-19 pandemic, the HKTB cancelled the following mega events after careful consideration and immediately discussed the situation with the related contractors to minimise the cost involved.

Cancelled mega events from 2019 up to now

Event	Original event date	Event cancellation date	Estimated organising and marketing expenses	Actual organising and marketing expenses	Loss of estimated revenue and sponsorship due to event cancellation
2019 Hong Kong Dragon Boat Carnival	14–16 June 2019	12 June 2019	About HK\$15.6 million	About HK\$12.4 million (note 1)	About HK\$5.5 million (including sponsorship and event enrolment fees)
2019 Hong Kong Cyclothon	13 October 2019	3 October 2019	About HK\$22 million	About HK\$ 9 million (note 2)	About HK\$10.4 million (including sponsorship and event enrolment fees)
2019 Hong Kong Wine & Dine Festival	31 October–3 November 2019	3 October 2019	HK\$59 million	HK\$25 million (note 3)	HK\$39 million (including sponsorship, exhibitor rental fees and entrance fees)

2020 International Chinese New Year Celebrations	25 January 2020	23 January 2020	HK\$32 million	HK\$31 million (note 4)	N/A
2020 Hong Kong Dragon Boat Carnival	19–21 June 2020	24–25 March 2020	HK\$0 (note 5)	HK\$0	N/A
2020 Hong Kong Cyclothon	15 November 2020	19 August 2020	About HK\$19.2 million	About HK\$1.12 million (note 6)	Around HK\$9.4 million (including sponsorship and event enrolment fee)

Note 1: Owing to the uncertainty resulting from the social events that took place near the event venue in Admiralty and Central a few days before event date, the event had to be cancelled, but the preparatory work had almost been completed.

Note 2: In early October 2019, the social events resulted in an uncertain situation, and since the Cyclothon mega event covered many places, including three bridges, three tunnels, and many major roads in the urban area, the event was cancelled. Part of the preparatory work had been completed at the time, including road inspections, event promotion and cycling technique assessments.

Note 3: In early October 2019, the social events resulted in uncertainty regarding the event, especially in the area around Admiralty and Central, where the event was to be held. The situation was expected to continue for weeks, so the event was cancelled. Most of the preparatory work had been completed except for site construction.

Note 4: As the coronavirus outbreak worsened, the Government announced a series of anti-epidemic measures on 23 January, two days before the event date, which including cancellation of all large-scale events, so the event was cancelled on the same day. However, all preparatory work had been completed, including site construction and readiness of the international performing teams, who had arrived in Hong Kong a few days earlier for rehearsal.

Note 5: In view of the COVID-19 developments, the HKTb announced the cancellation of the 2020 Hong Kong Dragon Boat Carnival three months before the event date.

Note 6: The event was cancelled in view of the COVID-19 developments, but part of the preparatory work had been completed, including road inspections.

Part 3: Marketing Activity

- 8) According to paragraph 3.21, in the period from 2014-2015 to 2019-2020, 320 articles were created by four content partners for HKTB's Website, involving a total of seven partnership agreements over the period, and five of which (71.4%) were made in the form of approving the quotations. However, there was no evidence showing that the partners were required to avoid conflict of interest between them and the commercial entities they featured. According to paragraph 3.23(d), measures had been in place to ensure that content partners of HKTB's Website complied with HKTB's guidelines to avoid conflict of interest with the commercial entities they featured. What were the measures adopted by HKTB and the progress made so far?

Reply:

Para. 3.21 of the report recommended that the HKTB take measures to require its website content partners to avoid any possible conflict of interest with the commercial entities they feature in accordance with HKTB guidelines. The HKTB took immediate action starting in October 2020, requiring all its website content partners to sign an agreement, along with the contract, guaranteeing no conflict of interest with the commercial entities they featured. The HKTB will also include the related requirements in the website content guidelines to ensure its business partners follow the guidelines.

Part 4: Quality Tourism Services Scheme

- 9) According to paragraphs 4.12 and 4.13, HKTB had outsourced the management of the operational activities of the Quality Tourism Services ("QTS") Scheme to a contractor. According to the agreement between the contractor and HKTB, the contractor would prepare a monthly patrol plan to target shops for checking of fraudulent display of QTS decals and logos. However, irregularities have been identified in the 10 merchants to which Audit conducted site visits. Did HKTB monitor if the contractor had conducted monthly patrols in compliance with the performance pledge set out in the agreement, e.g. by requiring the contractor to provide patrol records? Has HKTB considered taking recovery action against or impose severe penalty on the contractor when it fails to comply with the performance pledge on conducting monthly patrols set out in the agreement?

Reply:

The HKTB requires the contractor of the QTS Scheme to provide a monthly patrol record for the HKTB to review and monitor whether the contractor has fulfilled the requirement to check whether merchants that withdrew from the scheme no longer

display QTS decals. According to the agreement, if the contractor fails to complete the required tasks, it must carry out agreed substitution tasks.

The HKTB agrees that the related scrutiny has to be stepped up and enhanced, so the following enhancement measures will be implemented starting in 2021:

1. HKTB representative will be deployed to conduct on-site checks of the patrol record provided by the contractor.
2. A penalty clause will be included in the contract with the contractor. If the contractor does not achieve the target, a service fee will be deducted. If the situation is not improved, the contract will be terminated early.
3. The HKTB will step up its monitoring of merchants that have withdrawn from the QTS Scheme. If the merchants that have withdrawn from the scheme are warned by an on-site patrol and are issued a notification letter but continue to display the QTS decals or logos, the HKTB will take legal action.

Part 5: Way Forward

- 10) According to paragraph 5.8(c), HKTB said that the overall outbound travel of Malaysia had been affected by the incident of the disappearance of a passenger flight since 2014. The whole Malaysia outbound market had shrunk and air capacity had slashed. HKTB had been cutting recurrent subvention marketing expenditure in Malaysia till 2018-2019 when it saw some signs of recovery. However, according to paragraph 5.7(b), the marketing expenditure for Malaysia increased by 92.3% from \$3.9 million in 2014-2015 to \$7.5 million in 2018-2019. Why did HKTB significantly increase the marketing expenditure while claiming to cut the relevant expenditure?

Reply

In para. 5.8(c), the HKTB mentioned that the marketing expenditure allocated to the Malaysian market had been cut because of the Malaysian passenger flight disappearance in 2014. The marketing expenditure refers to the recurrent subvention allocated for the Malaysian market. The impact of the incident appeared in 2015 and intensified in 2016, when flight capacity between Hong Kong and Malaysia dropped to its lowest level. As a result, the HKTB cut recurrent expenditure for the Malaysian market from HK\$7 million in the 2015/16 financial year to about HK\$4 million from the 2016/17 to the 2018/19 financial years.

From 2014 to 2016, Hong Kong's tourism image was damaged by social events, like Occupy Central, protests against parallel traders, and violence in Mong Kok. This adversely affected the desire of people to visit Hong Kong, not only visitors from the Mainland, but also from other markets in the region, like Southeast Asia. Therefore, the HKTB sought additional funding from the Government to launch a new branding

campaign, “Best of all, it’s in Hong Kong”, starting in 2016, for regional promotion to rebuild Hong Kong’s tourism image. Since the promotion covered markets like the Mainland, Taiwan, South Korea, Japan and Southeast Asia, which included Malaysia, the promotional expense was shared by all related markets and was reflected in the expenditure for Malaysia, leading to a rise in overall marketing expenditure for the market.

	2014–15	2015–16	2016–17	2017–18	2018–19
Marketing expenditure allocated in Malaysia (millions)					
Recurrent expenditure	3.9	7.0	4.2	3.9	4.3
Additional expenditure derived from the regional branding campaign	0.0	3.5	4.3	3.3	3.2
Overall expenditure	3.9	10.5	8.5	7.2	7.5
Visitor arrivals from Malaysia (thousands)					
	2014	2015	2016	2017	2018
Overnight visitor arrivals	437	406	404	391	392
Total visitor arrivals	590	545	536	517	511

11) According to paragraph 5.7(b), the marketing expenditure for Indonesia increased by 119.6% from \$4.6 million in 2014-2015 to \$10.1 million in 2018-2019. However, the numbers of overnight visitor arrivals and total visitor arrivals from Indonesia in the period from 2014 to 2018 decreased by about 6% and 13.2% respectively. In addition, according to paragraph 5.8(d), the overnight visitor arrivals from Indonesia reached record high in 2017, hence HKTb saw market potential and further increased recurrent subvention marketing expenditure in this market. Against the background of decreases in both the numbers of overnight visitor arrivals and total visitor arrivals from Indonesia in the period from 2014 to 2019, why did HKTb confirm the market potential of Indonesia based only on the number of overnight visitor arrivals in 2017? Would this assessment be one-sided? Were there other figures to support HKTb's positive assessment of the Indonesian market?

Reply:

Regarding the increase in marketing resources for the Indonesian market mentioned in 5.7(b), there are other considerations apart from the abovementioned new regional brand campaign in question 10).

- a. Visitor arrivals from the Indonesian market in 2016 and 2017 recorded an encouraging increase of 12% and 4%, respectively;

- b. Indonesia's Gross Domestic Product performed well in 2016 and 2017 with 5% growth and was expected to increase in 2018;
- c. Hong Kong was the fourth most popular outbound travel destination in the Asia Pacific region for Indonesians, but competition in the region was fierce, so more resources had to be allocated to Indonesia to maintain Hong Kong's competitiveness.
- d. The commencement of direct flights between Indonesia and Macao in July 2017 provided an opportunity for Hong Kong to promote multi-destination travel products to Indonesian visitors travelling to Hong Kong.

	2014–15	2015–16	2016–17	2017–18	2018–19
Marketing expenditure allocated in Indonesia (millions)					
Recurrent expenditure	4.6	4.0	4.1	3.3	6.2
Additional expenditure for the regional brand campaign	0.0	1.7	4.3	3.1	3.9
Overall expenditure	4.6	5.7	8.5	6.4	10.1
Visitor arrivals from Indonesia (thousands)					
	2014	2015	2016	2017	2018
No. of overnight visitor arrivals	365	313	363	386	343
Total visitor arrivals	492	414	464	482	427

Since visitor arrivals from individual markets are easily affected by external factors, like the social and political environment, epidemics, visa policies, regional competition and accommodation fees, the allocation of marketing resources should aim for long-term benefits, rather than looking at visitor arrivals for a single year for the promotion's return.

- 12) With reference to paragraph 5.13, please set out in table form the following information on local tours launched by HKTb since June 2020:
- (a) the estimated and actual expenditure of each local tour;
 - (b) expenditure on promoting such tours;
 - (c) the amount of funding provided to the tourism industry in connection with these local tours; and
 - (d) the number of participating travel agents for each local tour and the number of visitors joining such tours.

Reply:

The requested information for the Free Tour programme launched by HKTB is as follows:

- a) The HKTB subsidises participating travel agents HK\$500 for each participant who joins the spend-to-redeem local tours.
- b) The HKTB leveraged the “Holiday at Home” campaign to promote the Free Tour programme. There is no separate breakdown of promotion expenses.
- c) The total budget for subsidising the participating travel agents of the Free Tour programme was HK\$5 million.
- d) The Free Tour programme received applications from 71 travel agents. Fifty itineraries from 50 travel agents met the requirements. As the travel agents had to follow a number of anti-pandemic measures set by the Government, when the programme was launched in November 2020, five travel agents decided to withdraw. In the end, there were 45 participating travel agents and 10,000 registered participants.

In view of the pandemic upsurge in late November 2020, the Government removed the exemption on group-gathering restrictions in relation to local tours. The HKTB announced the suspension of its Free Tour programme on 2 December. From the first departure date on 1 November until the date of suspension, 330 tours were organised and 7,500 local residents participated. The remaining tours will be rescheduled when the pandemic situation stabilises.
