

HONG KONG APPLIED SCIENCE AND TECHNOLOGY
RESEARCH INSTITUTE COMPANY LIMITED
香港應用科技研究院有限公司



Your Ref. : CB(3)/PAC/R48

18 May 2007

Clerk to Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong

(Attn : Ms Serena CHU)

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 48)**

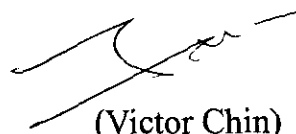
**Chapter 2: Administration of Hong Kong Applied Science and
Technology Research Institute Company Limited (ASTRI)**

Please refer to my letter on the captioned subject sent earlier to you today. Attached please find the following additional information –

Annex 8	Chronology of events relating to the recruitment and selection process of four cases referred to in paragraphs 3.18 and 3.32(a) of the Audit Report; and follow-up actions taken by the Director of Human Resources and the Human Resources Department after noting that the process was not in compliance with the relevant recruitment guidelines.
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Annex 9	Regarding the Board's decision in 2004 to set aside \$10 million derived from a spin-off exercise for a staff incentive scheme, whether and when the Government was informed of the decision and whether prior approval from Government had been sought; a copy of the document indicating the agreed principles for the distribution of income between the Government and ASTRI as mentioned in paragraph 3.45 of the Audit Report.
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Yours sincerely,



(Victor Chin)
for Chairman
Board of Directors

c.c. Secretary for Commerce, Industry and Technology
(Attn: Mr Joseph W P Wong)

Permanent Secretary for Commerce, Industry and Technology
(Communications and Technology)
(Attn: Mr Francis Ho)

Commissioner for Innovation and Technology
(Attn: Mr Anthony S K Wong)

Secretary for Financial Services and the Treasury
(Attn: Miss Amy Tse)

Director of Audit
(Attn: Mr Tony Ng)

Chronology of events relating to the recruitment and selection process of the four cases referred to in paragraphs 3.18 and 3.32 (a) of the Audit Report refer; and follow-up actions taken by the Director of Human Resources and the Human Resources Department after noting that the process was not in compliance with the relevant recruitment guidelines

ASTRI needs to employ talents with the best qualities and experiences to conduct R&D. ASTRI tries to recruit the best possible talents both from local and non-local sources.

Because of the gradual expansion of ASTRI's R&D portfolios and movements of staff, there is an ongoing need to recruit staff. ASTRI advertises all the vacancies through its website. ASTRI also advertises vacancies through local and non-local newspapers but since the advertising costs are high, the newspaper advertisements will include only the vacancies which need to be filled most urgently, but will also include a reference indicating that more details about vacancies are on the ASTRI website. Recruitment advertisements are placed on Hong Kong newspapers on a regular basis. ASTRI also mounts events for recruiting staff through dedicated recruitment campaigns, or running corporation promotion-cum- recruitment campaigns, both in and outside Hong Kong.

The chronology of events related to the cases referred to in paragraphs 3.18 and 3.32(a) of the Audit report are as follows.

The three overseas recruitment cases

The three posts in question concern a specific technology in the Communication Technologies Group. The three posts had been posted through ASTRI's website for some time but no one applied. In February/March 2005, these posts were advertised in a number of newspapers in San Francisco and San Jose, to tie in with a campaign to promote ASTRI to be held around that time. However, no application was received.

In July 2005, ASTRI mounted a promotion-cum-recruitment campaign in Hong Kong and in that connection, placed advertisements on Hong Kong newspapers advertising that ASTRI was looking for talents of different technologies, but still no suitable candidate for the concerned posts were found.

In January 2006, the VP and the R&D Director of the Communication Technologies Group attended a conference in the USA. Owing to the persistent difficulty in recruiting suitable staff, the VP and R&D Director had made contacts with their counterparts in the USA to explore if there might be suitable personnel to meet, to persuade them to come to Hong Kong to join ASTRI. At that time, the vacancies were still being advertised on ASTRI's website. A few candidates were sourced and interviewed in the USA during the VP and R&D Director's trip to the USA in January 2006. The VP & R&D Director subsequently completed and submitted their interview records and the interviewed candidates submitted their application forms. The candidates were at that time employees of another company which was undergoing restructuring, and were well qualified for the posts. ASTRI seized the opportunities, approved their applications and issued appointment letters to them quickly.

The chronology of the events relating to the three cases is as follows.

<p>February / March 2005</p>	<p>A campaign to promote ASTRI was held in the USA.</p> <p>To tie in with that campaign, the openings of the concerned posts were advertised in World Journal 2005 in San Francisco and San Jose, Dallas News, Singtao Southern California, Ming Pao in San Jose. The openings were also advertised on ASTRI's website during the same period.</p> <p>However, no application was received during this advertisement campaign.</p>
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March 2005 to July 2005	Continuation of advertising efforts through ASTRI website, but no application was received.
July 2005	ASTRI mounted a promotion-cum-recruitment campaign in Hong Kong which, among other things, invited applications for all its vacancies, including the vacancies in the Communication Technologies Group. Advertisements on the campaign were put on SCMP, Ming Pao and Career Times in Hong Kong. Applications were received for various posts but none was considered suitable for the posts in question.
July 2005 onwards	Continuation of advertising efforts through ASTRI website.
10-11 January 2006	The VP and the R&D Director of Communication Technologies Group attended a conference in the USA from 10-11 January 2006. During the trip, they interviewed some possible candidates who have valuable experience and talents in the concerned research projects. These candidates had no previous affiliation whatsoever with the VP and R&D Director concerned. They were referred by the VP and R&D Directors' counterparts in the USA, to explore the possibility of inviting them to join ASTRI.
15 January 2006	The VP and R&D Director completed and submitted to HR Department their assessments on the candidates.
24-26 January 2006	The candidates submitted their formal applications in response to the advertisements on ASTRI's website.

26 January 2006	The applications to appoint the candidates were submitted to the CEO by email (since he was at that time on a business trip). The CEO approved the appointments verbally. HR Department issued letters of appointment.
18 February 2006	<p>Even after recruiting the three candidates from the USA, there were still vacancies requiring similar technology expertise in the Communication Technologies Group.</p> <p>HR Department placed a recruitment advertisement in SCMP inviting applications for vacant posts in ASTRI's various groups and departments, including the then vacant posts in the Communication Technologies Department.</p>

The HR Department did not consider that there was a need to take any special follow-up action at that juncture.

The referral case

Background	The candidate in question was an ASTRI ex-employee who resigned from ASTRI in April 2006. He subsequently wished to re-join ASTRI, and discussed with another ASTRI staff member.
29 May 2006	<p>There was a vacancy in the Enterprise & Consumer Electronics Group. The vacancy was advertised on ASTRI's website.</p> <p>Through referral by the other ASTRI staff member referred to above, the VP and Group Director interviewed the candidate and found him suitable for taking up the job of Senior Engineer, Quality Assurance. The other ASTRI staff member</p>

	<p>referred to above participated in the interview but did not declare his acquaintance with the candidate.</p> <p>The interview panel found the candidate suitable, but appointment offer was put on hold pending the results of an open recruitment to be conducted.</p>
3 June 2006	<p>HR Department placed a recruitment advertisement in local newspapers, inviting applications for vacancies in ASTRI's various groups and departments, including the Senior Engineer, Quality Assurance post.</p> <p>Five applicants submitted applications. However they were all considered unsuitable because they lacked working experience relevant to the post. The five applicants were not invited for interview.</p> <p>The VP subsequently recommended appointment of the ASTRI ex-employee.</p>
17 June 2006	<p>HR Department made an offer of appointment to the recommended candidate.</p>

The HR Department in August 2006 verbally reminded the concerned VP to conduct the interview following the relevant recruitment guidelines as stipulated in the Corporate Governance. The candidate assessment form was revised in September 2006 to ensure that ASTRI staff members who have made referrals will abstain from taking part in the screening, interview and selection process.

Regarding the Board's decision in 2004 to set aside \$10 million derived from a spin-off exercise for a staff incentive scheme, whether and when the Government was informed of the decision and whether prior approval from Government had been sought; please also provide a document indicating the agreed principles for the distribution of income between the Government and ASTRI as mentioned in paragraph 3.45 of the Audit Report

The Government began internal discussions of how to dispose of incomes generated by ASTRI projects since the projects had reached a certain stage of maturity.

2. The discussions took place at the same time as negotiations between ASTRI and the potential purchaser of the three projects in photonics packaging referred to in paragraph 3.44 proceeded. It was agreed at that time that it was pre-mature to say that ASTRI had already established its business trend or that the deal in question could be adopted as the standard model for future spin-offs.

3. The Government decided to adopt a case-by-case approach, taking into account the need to balance the interests of both the public and ASTRI, and the conditions governing the administration of the public funding provided to ASTRI. While the actual distribution may vary from case to case, the principles set out below will apply -

(a) development costs provided by the Innovation and Technology Fund (ITF) and Government recurrent subvention will be fully recovered first;

(b) for the net income that remains after step (a), it will be divided into an ITF portion which will be ploughed back to the ITF, the remaining Government subvention portion will be shared between the Government and ASTRI. ASTRI will keep its portion of net income in its reserve account to cater for activities or payments in furtherance of its objectives. The use of the reserve should be subject to the approval of the Board, and

accumulation of the reserve should not exceed a certain ceiling.

4. The general principles set out above, the application of such principles to the sale of the photonics packaging projects, and the application of \$10 million out of the portion retained by ASTRI as incentive to concerned staff, were discussed at the ASTRI Board meeting on 27 February 2004. A copy of the minutes of that meeting was provided to the Public Accounts Committee on 30 April 2007. Enclosed please find the two papers Ref: ASTRI/ Paper 2/2004 and ASTRI/Paper 3/2004 discussed at that meeting.

5. The document referred to in paragraph 3.45 of the Audit report is attached hereto.

**Note by Clerk, PAC: ASTRI/Paper 2/2004, ASTRI/Paper 3/2004 and the document referred to in paragraph 5 above not attached.*