

A. Introduction

The Audit Commission (Audit) conducted a value for money audit of the Hong Kong Tourism Board (HKTB). The audit findings were contained in two separate chapters of the Director of Audit's Report (Audit Report) No. 49, i.e. "HKTB: Corporate governance and administrative issues" (Chapter 5) and "HKTB: Planning, execution and evaluation of marketing activities" (Chapter 6).

2. The Committee held a total of 15 public hearings between 13 December 2007 and 26 February 2008, totalling 46 hours, to receive evidence on the findings and observations in the above two chapters of the Audit Report.

3. The Committee's Report sets out the evidence gathered by the Committee which is relevant to the issues identified in the Audit Report and further revealed at the public hearings, and the Committee's conclusions and recommendations on those issues. The Report is divided into the following parts:

- (a) Introduction (Part A);
- (b) Corporate governance (Part B);
- (c) Executive medical plan for the former Executive Director (ED) and her family (Part C);
- (d) Performance measurement and reporting (Part D);
- (e) Remuneration and recruitment (Part E);
- (f) Procurement matters (Part F);
- (g) Other administrative issues (Part G);
- (h) Planning of marketing activities (Part H);
- (i) Worldwide Offices (WWOs) and Representative Offices (Part I);
- (j) Execution and evaluation of mega events (Part J); and
- (k) Conclusions and recommendations (Part K).

4. At the Committee's first public hearing on the Audit Report on the HKTB held on 13 December 2007, **Hon James TIEN Pei-chun, Chairman of the HKTB**, **Miss AU King-Chi, Commissioner for Tourism**, and **Hon Mrs Selina CHOW LIANG Shuk-yee, former Chairman of the HKTB**, respectively made an opening statement. The full texts of their statements are in *Appendices 17, 18 and 19* respectively.

5. The **Chairman of the HKTB** said that the HKTB had already implemented 27 improvement measures in response to Audit's recommendations. Another 25 measures were under review, which would be implemented in phases according to a concrete timetable. The HKTB senior management would submit to the Board a quarterly progress report on the improvement measures. The improvement measures already completed and yet to be completed were set out in *Appendix 20*.

6. The **Commissioner for Tourism** said that the Administration agreed that there was room for improvement in the corporate governance of the HKTB. The Administration and the Board of the HKTB had respectively proposed a number of improvement measures, and requested the HKTB management to implement as many of them as possible within the 2007-2008 financial year to effectively enhance the internal governance of the HKTB. To this end, the Administration would continue to monitor the operation of the HKTB and the progress in implementing various improvement measures for the effective use of public funds.

B. Corporate governance

Roles and responsibilities of government officials

7. According to paragraph 1.11 of Chapter 5 of the Audit Report, the Tourism Commission (TC), headed by the Commissioner for Tourism, was responsible for formulating and coordinating the implementation of policies, plans and strategies for tourism development, and provided advice to the Secretary for Commerce and Economic Development (SCED) on matters relating to the HKTB and tourism. The Government had appointed the Commissioner for Tourism as a member sitting on the Board of the HKTB since the HKTB's establishment on 1 April 2001.

8. To ascertain the roles and responsibilities of the Commissioner for Tourism in the HKTB, the Committee asked:

- (a) whether there was a list documenting the duties of the Commissioner for Tourism in discharging her role as the government representative sitting on the Board; if there was no such list, the basis on which the Commissioner performed her roles and responsibilities; and

- (b) about the relationship among and the respective responsibilities of the SCED, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) and the Commissioner for Tourism in overseeing the HKTB's use of public fund.

9. The **Commissioner for Tourism** stated in her letter of 28 February 2008 in *Appendix 21* that:

- (a) the Commissioner for Tourism was first appointed as a member of the Board on 1 April 2001 by the Financial Secretary (FS), under delegated authority from the Chief Executive (CE) under section 9 of the HKTB Ordinance. Since 1 April 2002, the Commissioner for Tourism had been the Deputy Chairman of the Board, appointed by the FS under delegated authority from the CE, under section 9(5) of the Ordinance. There was no list documenting the duties of the Commissioner for Tourism as the government representative sitting on the Board;
- (b) in common with other members of the Board, the Commissioner for Tourism's duties and role were to pursue the Board's objects as set out in section 4 of the Ordinance. In her role as Deputy Chairman, the Commissioner for Tourism was expected to act in the office of the Chairman if the office was vacant or if the Chairman was incapacitated by injury or illness, or was absent from Hong Kong, in accordance with section 9 of the Ordinance;
- (c) the Commissioner for Tourism served as a link between the Board and the Administration in explaining the Government's tourism and related policies, and supported the Board in its promotion of Hong Kong as a world class tourist destination by reference to such policies. The Commissioner for Tourism also ensured that the views of the Board would be taken into account in developing these government policies;
- (d) the SCED was the Principal Official responsible for tourism. Under the HKTB Ordinance and in exercise of authority delegated by the CE, the SCED approved certain matters governing the Board, including the Board's appointment and determination of the remuneration and other terms of appointment of the Deputy Executive Director (DED) (section 8), the Board's future financial commitments (section 14A), and the Board's programme of activities and estimates of income and expenditure for the next financial year (section 17B);

- (e) the PSCIT was responsible for assisting the SCED in formulating tourism policies. Under authority delegated to her by the CE, she was responsible for appointing an auditor to audit the Board's statement of accounts in respect of each financial year (section 18 of the HKTB Ordinance). Also, the PSCIT was the Controlling Officer for subvention to the Board under the Public Finance Ordinance; and
- (f) in exercising these statutory powers, both the SCED and the PSCIT took into account the Commissioner for Tourism's views, particularly with regard to the Board's budget proposals and its use of public moneys. From time to time, the Commissioner for Tourism sought guidance from the SCED and the PSCIT on matters requiring a policy steer, and conveyed such steer to the Board for its reference in shaping its strategies to achieve its objects. She also kept the SCED and the PSCIT informed of any major Board matters as appropriate.

10. In view of the roles and responsibilities of the Commissioner for Tourism, the Committee asked the SCED:

- (a) whether the former and the current Commissioners for Tourism had informed the SCED and/or the PSCIT of any problems and irregularities relating to the issues examined in the Audit Report; if so, what problems and irregularities had been identified by the respective Commissioners for Tourism, and what follow-up actions had been taken by the Commerce and Economic Development Bureau; and
- (b) about the mechanism for the Commissioner for Tourism to report major matters or problems of the HKTB to the SCED and/or the PSCIT.

11. **Hon Frederick MA Si-hang, Secretary for Commerce and Economic Development**, replied in his letter of 18 March 2008 in *Appendix 22* that:

- (a) from time to time, the Commissioner for Tourism reported to the SCED and the PSCIT important matters relating to the HKTB during the weekly directorate meetings and through other internal communication channels. These HKTB matters had come to the Commissioner for Tourism's attention through communication with the HKTB management, attendance at meetings of its committees and Board, as well as engagement with the travel industry. They included matters concerning the HKTB's budget proposals and its use of public funds;

- (b) for instance, the current Commissioner for Tourism reported to the then Secretary for Economic Development and Labour (SEDL) her concerns about the proposed salary increase and break clause arrangement for the senior staff of the HKTB in mid-2006. With the SEDL's advice, the Commissioner for Tourism conveyed the concerns to the Chairman of the Board and the Staff and Finance Committee, and raised the same at a subsequent Board meeting. Also, the former Commissioner for Tourism apprised the SEDL of the progress made by the HKTB in taking forward requests for reviewing the effectiveness of the HKTB's existing policies, established guidelines and procedures relating to the use of resources and recruitment; and
- (c) in reporting these important HKTB matters, the Commissioner for Tourism supported the PSCIT in performing her role as the Controlling Officer for the subvention to the HKTB. Serving as a link between the Board and the Administration, the Commissioner for Tourism offered advice to the ED of the HKTB on the latest development of tourism policies and infrastructure. This helped facilitate the HKTB in formulating tourism promotion strategies and marketing activities to achieve the relevant government policy objectives. In the process of implementation, the HKTB management as led by its ED was expected to comply with relevant due process and procedures for subvented organisations. In fact, in conveying the then SEDL's approval for the proposed estimates of income and expenditure and programme of activities submitted by the Board, both the Commissioner for Tourism and the former Permanent Secretary for Economic Development invariably reminded the ED to ensure the prudent use of public resources.

12. The Committee noted that according to the Public Finance Ordinance, Controlling Officers were responsible and accountable for the proper use of public funds under their control. However, the PSCIT, who was the Controlling Officer for the HKTB, was not appointed to the Board. The Commissioner for Tourism, who was appointed to the Board, did not have the responsibilities or the power of the Controlling Officer. The Committee therefore wrote to the CE, who is the authority to appoint members to the Board of the HKTB, to enquire about:

- (a) the reasons for not appointing the PSCIT to be a member of the Board of the HKTB;
- (b) the intended roles and responsibilities of the Commissioner for Tourism when appointing her as a member of the Board, and whether those included a monitoring role to ensure the proper use of public funds allocated to the HKTB; and

- (c) in appointing members to the governing bodies of other publicly-funded statutory organisations, whether there were instances that the Controlling Officers for the subvention to such organisations had been appointed as their board members, and the criteria for determining whether the Controlling Officers should be appointed as board members of the relevant organisations.

13. **Mr Patrick LI, Acting Private Secretary to Chief Executive**, stated in his letter of 17 March 2008 in *Appendix 23* that:

- (a) Financial Circular No. 9/2004: “Guidelines on the Management and Control of Government Funding for Subvented Organisations” (see *Appendix 24*) stated that Controlling Officers should satisfy themselves that an effective system was in place to safeguard the proper use of public funds. The circular also provided guidelines to Controlling Officers for managing and controlling government subvention to subvented organisations. Controlling Officers might use a wide range of measures to perform their funding control responsibility, such as setting clear objectives for the subvented organisations to follow, reviewing or approving the organisations’ annual budget and programme of activities, monitoring work progress, requiring the organisations to submit audited accounts, and having access to the organisations’ records and accounts. Where appropriate, Controlling Officers might make use of tailor-made instruments, such as entering into a Memorandum of Administrative Arrangements with the subvented organisations concerned, to assist them in exercising funding control;
- (b) while there were instances where the Controlling Officer for the subvention to a statutory organisation was appointed to its governing body, being a Controlling Officer for the subvented organisation, per se, was not the overriding criterion for determining that officer should be appointed to its governing board. The criteria for determining whether and which government official should be appointed to the governing board included statutory requirements, the nature and operation of the organisation, and policy objectives of the Government. Given the wide range of measures that Controlling Officers might use to exercise funding control, it might not be necessary for Controlling Officers to be appointed to the governing body in order to perform such role effectively;
- (c) the Commissioner for Tourism, being the chief government official charged with developing and formulating tourism policies, and having close liaison with the tourism industry, was an appropriate officer to be appointed to the HKTB to serve as a link between the HKTB and the Government. Her appointment also ensured that the views of the HKTB would be taken into account in the formulation of government policies;

- (d) the Commissioner for Tourism’s duties and role as a member of the HKTB, in common with other members, were to pursue the Board’s objects as set out in the HKTB Ordinance, and to exercise collectively the powers of the Board as prescribed in the said Ordinance. These included, amongst other, drawing up the Board’s budget and ensuring the proper use of public funds allocated to the Board. Together with other members on the HKTB, the Commissioner for Tourism sought to ensure that adequate internal procedures and processes were in place to achieve good corporate governance. It was the responsibility of the senior management to ensure compliance and report any exceptions to the HKTB; and
- (e) from time to time the Commissioner for Tourism reported to and sought guidance from the PSCIT on matters concerning the HKTB, including its budget proposals and its use of public funds. For the above reasons, it was not necessary for the PSCIT to be a member of the Board.

14. The Committee further asked whether the PSCIT had made use of any tailor-made instruments to assist the HKTB in exercising funding control, and whether the Administration had arranged any designated officers to brief the PSCIT as well as the former and/or current EDs of the HKTB to ensure that they were aware of the requirements in the Public Finance Ordinance and subsidiary regulations and circulars governing the control and management of public finances.

15. The **Secretary for Commerce and Economic Development** said in his letters of 18 March 2008 and 26 March 2008 (in *Appendix 25*) that:

- (a) since the HKTB’s establishment in 2001, the Government had not entered into any tailor-made instrument with it for exercising funding control; and
- (b) it was incumbent on the HKTB’s senior management to familiarise themselves with the relevant statutory requirements, including those in the HKTB Ordinance and the Public Finance Ordinance, and to advise the Board exceptions to the due process and procedures governing the day-to-day use of public resources. The HKTB management and its Board were supported by an internal legal advisor who might tender advice on the HKTB’s compliance with relevant legislation in discharging its functions. In this regard, the DED’s duty list specifically included overseeing of the “legal counsel, systems and process management”.

Roles and responsibilities of the HKTB top management

16. The Committee noted from the organisation chart of the HKTB in Appendix A of Chapter 5 of the Audit Report that the ED was mainly responsible for the marketing programmes of the HKTB, whereas the DED oversaw corporate support, including financial management, legal counsel, office administration, systems and process management and human resources management. Given the importance of the position of the DED in assisting the Board and the ED to achieve high standards of corporate governance and effective operations, the Committee requested the HKTB to provide additional information on the employment history of the former DED since she joined the Hong Kong Tourist Association (HKTA)/HKTB, and a copy of her job description as the DED (see *Appendix 26*).

17. The Committee noted from the former DED's employment history that she joined the HKTA in 1986, initially as an Internal Auditor, and advanced to the position of Finance and Administration Director in 1996 and the DED in 2003. She was expected to be a seasoned professional with extensive experience in finance and management as well as in overseeing regulatory and compliance functions of an organisation, as reflected in the job requirements of the post of DED. Specifically, her main responsibilities as stated in the job description included:

- (a) deputising the ED;
- (b) acting as the main point of contact with the Government on the HKTB's governance matters, such as policies and procedures on the use of subvention, operational guidelines of the HKTB for operating within the framework of a subvented organisation, etc;
- (c) ensuring that all corporate activities and operations were carried out in compliance with the HKTB Ordinance, corporate governance, laws and regulations as well as best business practices; and
- (d) performing a "goalkeeper role" to ensure that all commercial transactions and contracts safeguarded the interests of the HKTB. Such a role of the DED was intended to permit the ED to focus on marketing programmes.

18. The Committee asked whether there were any differences between the current and the previous organisational structures of the HKTB, and whether there were changes in the duties and responsibilities of the ED and the DED having regard to the various problems and deficiencies revealed in the Audit Report.

19. **Mrs Daisy LAM, DED of the HKTB**, said in her letter of 16 January 2008 in *Appendix 27* that there was no change to the organisation chart nor the duties and responsibilities of the ED and the DED up to the present. However, the current DED had been tasked to implement a series of improvement measures according to the recommendations of the Audit Report.

Approval of Business Plan and Budget

20. According to paragraphs 2.7 and 2.8 of Chapter 5 of the Audit Report, the HKTB was required to forward the draft Business Plan and Budget to the SCED for approval before a date appointed by the SCED in accordance with section 17B(1) of the HKTB Ordinance. However, the Administration had not appointed the submission dates of the Business Plans and Budgets for the years from 2002-2003 to 2007-2008. Also, during the said years, only the 2003-2004 Business Plan and Budget was approved by the Administration before the financial year commenced. The other five Business Plans and Budgets were approved (ranging from 33 to 173 days) after the commencement of the relevant financial years. The Committee asked:

- (a) why the Administration had not appointed the submission dates of the Business Plans and Budgets for the years between 2002-2003 and 2007-2008;
- (b) why the Business Plan and Budget for 2003-2004 could be approved before the commencement of that financial year but not the other five years, particularly 2005-2006 which had taken an exceptionally long time to approve; and
- (c) since the HKTB had to continue its operation and commit expenses prior to the Administration's approval of its Business Plans and Budgets in those five years, whether such irregularity had contravened any rules, regulations or guidelines governing the use of public funds.

21. The **Commissioner for Tourism** said at the public hearings and in her letter of 24 January 2008 in *Appendix 28* that:

- (a) the Administration and the HKTB had not agreed any timeframe to guide the submission and approval of the HKTB's programme of proposed activities and estimates of its income and expenditure (i.e. its "Business Plan and Budget") before September 2007. This notwithstanding, the TC had followed the same steps in examining the HKTB's programme of proposed activities and estimates of its income and expenditure and seeking the relevant Principal Official's approval in the past years;

- (b) for 2003-2004, the HKTB's programme of proposed activities and estimates of its income and expenditure were largely similar to those of the previous year. Less time was required for examining the detailed proposals. For 2005-2006, the Business Plan and Budget was initially endorsed by the Board of the HKTB in February 2005 based on an estimated additional funding of \$544 million for the strategic promotion campaign over a two-year period for 2005-2006 and 2006-2007. As the additional funding turned out to be \$470 million, the Business Plan and Budget had to be revised and endorsed by the Board in July 2005. The Administration, having carefully reviewed the Business Plan and Budget, approved it on 20 September 2005;
- (c) the HKTB's subvention formed part of the overall government Budget which was subject to vetting and approval of the Legislative Council (LegCo) through the Appropriation Bill and the Vote-on-account Resolution. Section 17A of the HKTB Ordinance provided that in "[e]ach financial year there shall be paid to the Board out of moneys provided by the Legislative Council the sum the Chief Executive approves for the purpose of assisting the Board to carry out its objects and to exercise its functions". For this purpose, the subvention for the HKTB included in the government Budget followed the HKTB's broad heads of income and expenditure and proposed activities for the ensuing financial year as agreed by the Administration. These in turn formed the basis of the HKTB's programme of proposed activities and estimates of its income and expenditure for the purpose of section 17B of the HKTB Ordinance;
- (d) with delegated authority from the CE, the former SEDL gave approval of HKTB's programme of proposed activities and estimates of its income and expenditure under section 17B(1) of the HKTB Ordinance after the enactment of the Appropriation Bill, to take into account the approved subvention and elaboration by the HKTB of the broad heads of income and expenditure and proposed activities. It would be impossible to approve any aggregate amount of expenditures under section 17B that exceeded the subvention approved under section 17A as part of the Appropriation Ordinance; and
- (e) in response to the Director of Audit's comments, the TC had, in consultation with the HKTB, introduced a new *modus operandus* in September 2007 for the implementation of section 17B(1). Specifically, the SCED had appointed a date for the HKTB to submit its programme of proposed activities and estimates of its income and expenditure to him, i.e. by 28 February of each year. The TC had agreed with the HKTB to advance the process of preparing and examining the HKTB's programme of proposed activities and estimates of its income and expenditure. The new

modus operandus would allow the SCED to approve the HKTB's programme of proposed activities and estimates of its income and expenditure on a more timely basis. Although section 17B(1) of the HKTB Ordinance did not specify a time within which approval was to be given, the Administration would endeavour to complete the approval process by 1 April. This approval would, however, have to be made conditional upon the LegCo's approval of the Appropriation Bill which included the subvention for the HKTB.

22. Given that five Business Plans and Budgets were approved after the commencement of the relevant financial years, the Committee asked on what basis the former ED of the HKTB committed expenses for implementing various marketing programmes before the Administration's approval was given.

23. **Ms Clara CHONG, former ED of the HKTB**, responded at the public hearings and in her letter of 10 January 2008 in *Appendix 10* that:

- (a) the Commissioner for Tourism was the Deputy Chairman of the HKTB representing the Government and sat on all committees of the HKTB and attended the committee meetings. Accordingly, she would at all times be fully aware of the discussions during the meetings as well as the process for approval of the annual Business Plan. The Commissioner for Tourism was also the key liaison between the HKTB and the Government. If she had any concerns or issues regarding the annual Business Plan, she could be in a position to bring this up before any commitment was made by the HKTB;
- (b) in respect of the additional funding allocated to the HKTB in 2005-2006, she had made a separate presentation to the FS on the proposal of Discover Hong Kong Year Campaign. The FS fully appreciated the objectives and was aware of the deliverables of the said Campaign before he agreed to the additional funding for this one-off booster campaign. As a matter of practice, every year on the question of funding, the Government continued to pay the subvention to the HKTB on a monthly basis even though the annual Business Plan and Budget was still in the process of being approved;
- (c) the above was an indication to the HKTB that it could proceed with certain more urgent tasks defined in the annual Business Plan, especially since the Commissioner for Tourism was at all times well aware of all the discussions and the logic behind the decisions, in particular the established process adopted by the HKTB over the years on utilising the annual subvention. If anything was not done according to the law, the Government would have raised warnings and/or put a stop to this practice long ago; and

- (d) for the implementation of large-scale marketing programmes, since planning work usually had to start six months in advance, the HKTB had to build in sufficient flexibility in its marketing plans. When entering into contracts, the HKTB's practice was to allow room for changes when necessary without having to forfeit any payments made or to minimise any risk of forfeitures.

24. The **Chairman of the HKTB** added that as a new initiative, the HKTB would submit the HKTB's draft estimates for 2008-2009 to the LegCo Panel on Economic Development in January/February 2008 to seek LegCo Members' views on its proposed activities and budget before submitting the annual Business Plan and Budget to the SCED for approval.

Appointment of Board members and conduct of Board business

25. The Committee noted from paragraph 2.13 of Chapter 5 of the Audit Report that as of September 2007, the Board of the HKTB did not have representatives from the Consumer Council (CC) and the front-line workers of the travel and tourism industry although the LegCo was informed in 2001 that the Administration intended to appoint members from these two sectors. The Committee asked why there were no representatives from these two sectors, and whether the LegCo had been informed of the latest arrangement regarding the appointment of Board members.

26. In her letter of 24 January 2008, the **Commissioner for Tourism** informed the Committee that an information note had been provided to the Panel on Economic Development in January 2008 to report the arrangement regarding the appointment of Board members. In gist, the **Commissioner for Tourism** said that:

- (a) in considering appointments to the HKTB, the Administration took into account the Board's strategies and work, as well as the prospective appointees' abilities, expertise, experience, integrity and commitment to public service, so as to ensure that the best available persons were appointed for effective operation of the Board;
- (b) due to different cycles of appointments to the HKTB and the CC and the fact that the appointment was in their personal capacity, it was difficult to maintain cross-membership between the HKTB and the CC at all times. Instead a flexible approach had been adopted over the years, i.e. to consider the prospective appointee's experience with the CC, and his/her commitment to the cause of consumer protection, etc. Upon retirement of the former CC Chairman from the HKTB in October 2007, the Administration appointed former Vice-chairman of the CC to fill the

vacancy. Such an arrangement sought to ensure adequate expertise and experience in consumer protection in the Board's membership;

- (c) as regards front-line tourism worker, as the job types involved were very diversified, covering tour guides, travel agencies and airlines workers, and hotel concierge, etc, appointment from any one of these work types was not sufficiently representative of the views of front-line workers as a whole. For more effective and comprehensive engagement of front-line workers, the HKTB sought the views of different levels of the tourism industry and related sectors in formulating and implementing its marketing strategy and promotional activities;
- (d) the Administration encouraged the HKTB to further expand the breadth and depth of engagement with workers at different levels of the tourism sectors, and to institutionalise its existing communication with different players and related sectors of the tourism industry, e.g. inviting front-line workers to workshops and discussion forums periodically; and
- (e) the TC would review the composition of the Board from time to time. An open and flexible approach would be adopted to ensure that there were members from tourism-related sectors on the one hand, and a balanced composition on the other to facilitate collection and exchange of different views that would contribute to the HKTB's long-term objectives and work.

27. The Committee noted from paragraph 2.22 of Chapter 5 of the Audit Report that the attendance of some Board members at Board/committee meetings was low. For example, one member who only attended nine of 31 (29%) Board meetings between 2002-2003 and 2006-2007 and was absent continuously from all 15 Staff and Finance Committee meetings between 2005-2006 and 2006-2007 was still reappointed a member of the Board twice in November 2005 and November 2006. The Committee asked why the Administration still reappointed this member despite his unacceptably low attendance.

28. The **Commissioner for Tourism** responded that the Administration had taken into account the attendance rate of Board members when considering their reappointment. This message had been clearly sent to all existing members. The Administration had also requested the HKTB Secretariat to inform individual members of their attendance records as a reminder of the importance of their attendance.

29. The **Chairman of the HKTB** also said that the HKTB had already put in place some measures to improve the attendance of its Board members, which included:

- (a) issuing attendance records of Board/committee meetings to members every six months to serve as a reminder of their attendance. The first reminder was sent in August 2007;
- (b) for members who were not able to attend the meetings, arranging facilities for conference calls during meetings to facilitate their participation, and actively inviting members to submit their written comments; and
- (c) adhering to the pre-determined dates for Board meetings as far as possible. In case the Chairman was unable to chair the meeting on a pre-determined date, the Deputy Chairman would be asked to chair the meeting instead.

30. Audit pointed out in paragraph 2.29 of Chapter 5 of the Audit Report that an information manual for the HKTB Board members which set out the proceedings of Board meetings had not yet been approved by the Board up to August 2007. Moreover, according to this manual, the quorum of a Board meeting was five (i.e. 25% of total membership of 20). On the other hand, the quorum of all four committees was 50% of the Committee's total membership, as stated in their Terms of Reference. The Committee questioned:

- (a) why the former DED, being the Secretary to the Board, had not assisted the Board to formalise the information manual and devise proper procedures for conducting Board business;
- (b) how the Board conducted its meetings in the absence of a set of formalised rules and procedures for over six years; and
- (c) whether the low quorum requirement of a Board meeting would be reviewed.

31. **Mrs Grace LEE, former DED of the HKTB**, said that the information manual was purely provided to Board members as a general reference when they were appointed to the Board. It contained many other information of the HKTB, apart from the proceedings of Board meetings. Therefore, she had not sought the Board's approval of this manual.

32. The **former Chairman of the HKTB** responded that when she was appointed as the Chairman of the Board, she was not aware that the information manual was not formalised. Nevertheless, the Board had all along followed the proceedings of meetings as

stated in the manual and members of the Board had not raised any objection. She agreed with Audit that the rules and procedures governing the proceedings of Board meetings should be formalised.

33. The **Chairman of the HKTB** added that the rules and procedures for the proceedings of Board meetings set out in the information manual had been formally adopted by the Board since September 2007.

34. On the issue of the quorum of a Board meeting, the **Chairman of the HKTB** said that the attendance rates of the Board members at Board meetings in the past few years were around 70%. Therefore, the HKTB did not notice the relatively low quorum requirement of five members. The HKTB would review this matter in consultation with Board members.

35. Paragraph 2.37 of Chapter 5 of the Audit Report showed that for the 50 Board/committee meetings held between 2005-2006 and 2006-2007, the HKTB generally took a long time to issue the draft minutes, ranging from 27 to 77 days for Board meetings, 33 to 117 days for Product and Event Committee meetings and 31 to 90 days for Audit Committee meetings. The Committee asked why a long time had been taken to issue the draft minutes.

36. The **former DED of the HKTB** said that the draft minutes of a Board/committee meeting were normally distributed together with the agenda and information for the upcoming meeting. Since some committees did not hold meetings frequently, and meetings might sometimes be postponed, the time lapse between the date of meeting and the circulation of the draft minutes to members was lengthened.

37. The **Chairman of the HKTB** supplemented that in the light of the audit recommendation, the HKTB Secretariat had changed the previous practice of issuing draft minutes. Draft minutes of the Board/committee meetings would now be circulated to members within three weeks of the respective meetings.

38. Paragraph 2.43 of Chapter 5 of the Audit Report revealed that one Board member failed to submit his declaration of interest forms between 2001-2002 and 2006-2007. Two other Board members also failed to do so for 2003-2004. The Committee asked:

- (a) what actions had been taken by the HKTB to follow up with the Board members who had not submitted their declaration forms;

- (b) whether the HKTB had ascertained the reasons for their not submitting the declaration forms; and
- (c) whether there were situations of conflict of interest concerning these members.

39. The **former DED of the HKTB** said that the Board had followed the Administration's guidelines by adopting a two-tier reporting system regarding the declaration of conflict of interest of its members. Under the system, the Chairman and members of the Board would submit a declaration of interest form to the secretary of the Board when they first joined the HKTB, and annually thereafter. Apart from this, if a member had any direct personal or pecuniary interest in any matter under consideration at Board meetings, he was required to disclose his interest to the Chairman prior to the discussion of the matter. The Chairman would then decide whether the member concerned might speak or vote in the matter, remain at the meeting or should withdraw from the meeting. For those members who had not submitted the declaration of interest forms, the Secretariat had followed up with them many times, both verbally and in writing, but in vain.

40. The **former Chairman of the HKTB** also said that one of the members who failed to submit the declaration form was an elderly person representing a particular sector. It had been confirmed that he did not have any conflict of interest in the matters approved by him. As the former Chairman, she had to ensure that members did not have conflict of interest in the matters discussed at each Board meeting.

41. The **Chairman of the HKTB** added that if any Board member failed to submit declaration forms despite repeated reminders over a reasonable period, he would bring the matter to the attention of the Administration as it had the power to appoint and remove members from the Board.

C. Executive medical plan for the former ED and her family

Approval for the executive medical plan

42. The Committee devoted a considerable amount of time to examine the terms and circumstances of the second employment contract of the former ED with the HKTB in relation to the provision of an executive medical plan to her and her family. The former ED's first employment contract, print-dated 23 January 2001, and the second contract, print-dated 2 April 2004, are in *Appendices 29 and 30* respectively.

43. The Committee noted from paragraph 4.20 of Chapter 5 of the Audit Report that in accordance with the HKTB Ordinance, the appointment, remuneration and other terms of appointment of the ED and the DED shall be subject to the approval of the CE. For the ED, the authority had been delegated to the FS as from April 2001.

44. According to section 9 of the former ED's second employment contract, the former ED was entitled to the medical and dental benefits as set out in the Employees' Handbook of the HKTB. Paragraph 4.23 of Chapter 5 of the Audit Report revealed that in September 2004, the former Chairman of the HKTB gave approval for the former ED to join an executive medical plan for herself and her family. The HKTB paid an annual premium of \$84,921 for the 12-month period ended September 2005, and \$92,483 for the 12-month period ended September 2006. However, the executive medical plan had not been approved by the FS. In response to the Committee's request, the HKTB provided a comparison of the premiums of the executive medical plan and the medical and dental schemes specified in its Employees' Handbook (in *Appendix 26*).

45. Against the above background, the Committee asked:

- (a) about the circumstances leading to the provision of the executive medical plan to the former ED without obtaining the necessary approval from the FS; and
- (b) the reason why the former Chairman of the HKTB gave approval for the former ED to join the executive medical plan, which was a contradiction to the express terms of the former ED's second employment contract.

46. The **former Chairman of the HKTB** stated that:

- (a) she was not aware that the executive medical plan was not covered by the FS's approval until the matter was revealed by the Audit Report;
- (b) she had been misled into approving the procurement of the executive medical plan. On 2 September 2004, the former DED sought her approval for procuring the executive medical plan by sending an e-mail (in *Appendix 31*) to her, which stated that:

"I (the DED) understand that as part of the terms of Clara (the ED)'s contract renewal, she is entitled to enroll on an executive medical plan for herself and her family. It has taken us some time to find a suitable plan. We have now found a plan which provides her with the necessary coverage and the annual premium is \$84,921 which is the sort of premium that is

demanded for executive medical plans. May I have your approval to proceed with the coverage.”;

- (c) as it was clearly stated in the above e-mail that the executive medical plan was the former ED’s entitlement under the renewal contract, she took on trust that this was the case and did not verify if the plan was actually provided for in the contract. Given the wording of the e-mail, she also thought that the medical plan was a contractual commitment and had to be approved. She therefore replied on 5 September 2004 allowing the former DED to proceed with the procurement. Having reviewed the relevant documents, including the employment contract in question, she now realised that the executive medical plan was not covered by the FS’s approval;
- (d) after she had reached an agreement with the former ED regarding the latter’s terms of contract renewal, she wrote a letter (in *Appendix 32*) on 4 March 2004 to the Acting Commissioner for Tourism and the Chairman of the Staff and Finance Committee setting out the terms which were different from the first contract. The executive medical plan was not mentioned in her letter. On 23 March 2004, Ms Sandra LEE, the then Permanent Secretary for Economic Development and Labour (Economic Development) sent a letter (in *Appendix 33*) to her informing that the FS had approved the reappointment of the former ED and the new terms of appointment as set out in her letter of 4 March 2004; and
- (e) she then passed her letter containing the terms of appointment as well as the Permanent Secretary’s letter to the former DED and instructed her to prepare the renewal contract according to those terms. The renewal contract included all the terms referred to in her letter of 4 March 2004. As for medical and dental benefits, they were in accordance with those set out in the HKTB’s Employees’ Handbook. Such a provision was the same as that in the first contract.

47. The **former Chairman of the HKTB** further referred to the draft second employment contract for the former ED (in *Appendix 34*), which was provided to the Committee by the former DED. In the draft, there were the former DED’s handwritten notes, which stated that it had been verbally agreed by the Chairman that the annual leave passage allowance could continue to be paid to the ED on a non-accountable basis. The notes also stated that it had been verbally agreed by the Chairman that the HKTB would agree to the ED’s request of upgrading her medical plan to an “unlimited” one. The **former Chairman of the HKTB** said that:

- (a) she remembered that the DED had verbally discussed with her the ED's leave passage allowance. She agreed that cash in lieu of air tickets could be paid as the ED's leave passage because no additional cost would be incurred. This was in fact the same arrangement as the ED's first contract. However, the DED had not discussed with her the ED's medical benefits. She was surprised that the DED had stated in her notes that she had agreed to upgrade the ED's medical plan to an "unlimited" one; and
- (b) as there were several rounds of discussions with the ED over the contract renewal, she could not remember what conditions had been requested and agreed to eventually. She did not recall having agreed to the ED's request for upgrading her medical benefits. However, she had set out in her letter of 4 March 2004 the terms agreed with the ED and which were changes to the ED's first contract. Those terms had to be approved by the Board and the FS before they could be included in the contract. In response to the Administration's enquiries, she had provided clarifications in another letter of 7 March 2004. As it transpired, all the terms contained in her letter of 4 March 2004 had been approved by the FS and incorporated into the written contract dated 2 April 2004.

48. The Committee noted that the former Chairman was the party who negotiated with the former ED the terms of the latter's contract renewal and was a signatory to the contract. The Committee therefore questioned why the former Chairman, when being asked to give approval to the procurement of the executive medical plan, did not realise that there were problems and take action to verify if the plan was indeed provided for in the contract.

49. In addition, the Committee noted that it was clearly stated in the former DED's e-mail of 2 September 2004 that the annual premium of the executive medical plan was \$84,921, which was a large amount for a medical insurance plan. It appeared to the Committee that the former Chairman should have been concerned about the high cost, no matter whether or not she had given approval for the former ED to upgrade her medical benefits. The Committee enquired why the former Chairman did not have such concern.

50. The **former Chairman of the HKTB** explained that:

- (a) the e-mail seeking her approval for procuring the executive medical plan was sent to her on 2 September 2004, five months after she had signed the contract. Upon reading the e-mail, she thought that the executive medical plan was a provision in the ED's contract and she was bound to approve it. It had not occurred to her that the plan might not be included in the contract;

- (b) being a non-executive chairman, she had to rely on the management to ensure that procurement matters were properly handled according to the HKTB's procedure. It was impossible for her to check the details of every matter submitted to her for approval, such as whether the price quoted for an air ticket or a medical insurance plan was most competitive. There had to be trust between the Chairman and the management. In the present case, in approving the plan, she had relied on the DED's advice given in the latter's e-mail of 2 September 2004; and
- (c) she had no idea whether or not a premium of \$84,921 was expensive. As it was stated in the e-mail that the premium of \$84,921 was "the sort of premium that is demanded for executive medical plans", she thought that the premium was at a reasonable level. However, she now realised that this was in fact not the case as the then General Manager, Industry Training and Human Resources (GM ITHR) had pointed out that the executive medical plan was a "super medical scheme" and would be difficult to justify. In this regard, she considered that she had been misled by the DED's e-mail.

51. The Committee asked the former DED for the meaning of her handwritten notes on the draft contract that the Chairman had agreed to upgrade the ED's medical plan to an "unlimited" one. The **former DED of the HKTB** explained that the word "unlimited" did not mean that the amount of premium could be unlimited. She used that word simply because according to the information given to her by the former ED, the ED had obtained the Chairman's approval to source for a suitable medical plan and there was no mention of any restriction to the plan.

52. On the reason why she requested a medical plan which was different from the HKTB's corporate medical plan and the approval process that had been gone through, the **former ED of the HKTB** stated at the public hearings and in her letter of 10 January 2008 (in *Appendix 10*) that:

- (a) her health was very poor during her service with the HKTB. She had been admitted to the hospital twice during the first three years of her tenure. She had also been so ill as to be unable to return to Hong Kong while undertaking overseas duty visits in Britain, Japan and Thailand. Hence, during the discussion of the renewal of her contract, she considered it necessary to request a better medical plan that covered all contingencies in order to protect herself. As it was common for a company's medical insurance plan to cover the family members of its employees, she also requested that her family be covered by the executive medical plan;

- (b) during a meeting in about February 2004 for discussing the renewal of her contract, the Chairman of the HKTB and the Chairman of the Staff and Finance Committee verbally gave in-principle approval for her to upgrade the medical scheme for her and to source for a suitable medical plan which would cover her family as well. This was evidenced by her handwritten notes (in *Appendix 10*) after the meeting with the two Chairmen. After obtaining the approval, she instructed the DED, who was in charge of human resources matters, to source for such a plan. She also asked the DED to seek the Chairman's approval for the premium after a suitable plan was identified, but before confirming the plan. She had not followed up the matter since then. It was not until September 2007 when she was approached by the HKTB that she realised that the executive medical plan had not been properly approved; and
- (c) she took the initiative to discontinue the executive medical plan at the end of the second year of the plan because no additional funding would be allocated to the HKTB after the 2006 Discover Hong Kong Year Campaign. The HKTB had to cut cost in order not to affect promotional activities. As a cost-cutting measure, she suggested that her medical plan should not be renewed.

53. In her letter of 18 December 2007 in *Appendix 35*, the **former ED of the HKTB** supplemented that, upon expiry of the executive medical plan in September 2006, she and her family members had not continued to join the plan at her own expense.

54. Noting that the medical and dental schemes specified in the Employees' Handbook of the HKTB already offered very good coverage, the Committee asked why the former ED demanded an even better scheme. The **former ED of the HKTB** responded that:

- (a) she had no monetary gain from the executive medical plan. During the discussion of the terms of her contract renewal, she only requested a comprehensive executive medical plan which offered more extensive coverage than the one provided by the HKTB for other staff. Given her poor health at that time, she wanted a medical plan that offered more flexible terms, fewer restrictions on medical consultations with specialists and greater worldwide coverage; and
- (b) as an employee, there was nothing wrong on her part in seeking to negotiate for better protection and a better remuneration package upon contract renewal.

55. The Committee further asked the former ED the reason why:
- (a) she signed the contract although section 9 of the contract only provided for the medical and dental benefits as set out in the Employees' Handbook but not the upgraded medical plan as requested by her;
 - (b) she did not wait for the FS's approval for the executive medical plan before instructing the DED to source for a suitable plan; and
 - (c) after a suitable medical plan had been identified, she did not go through the proper procedure and request the HKTB to modify the contract.
56. The **former ED of the HKTB** responded that:
- (a) she signed the employment contract although it only provided for the medical and dental benefits as set out in the Employees' Handbook because a suitable medical plan had not yet been identified at that time. She considered that she had no right to demand that the contract should include an executive medical plan the premium of which was not known. She thought that the medical plan would be formally approved after the premium was known;
 - (b) after obtaining the Chairman's approval-in-principle, she instructed the DED to source for a suitable executive medical plan and to seek the Chairman's approval for the premium direct. She was not involved in the process of sourcing and seeking of approval for the plan. She was not aware of the communications between the Chairman and the DED relating to the plan, including the DED's e-mail of 2 September 2004. Neither was she involved in the preparation of her employment contract;
 - (c) it had not occurred to her that the FS's approval was required for the executive medical plan. She also had no idea that the contract should be modified to provide for the plan. This was because from her experience in the first contract, although her monthly mobile phone charges (including personal calls) were not included in the contract, they were still paid by the HKTB; and
 - (d) given that the medical plan was for herself, it would be inappropriate for her to give instruction as to whose approval should be sought. It was also not her responsibility to seek the FS's approval for her own employment contract. This had all along been handled by the Chairman.

57. In response to the former ED's statement that the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee had verbally given in-principle approval for her to upgrade the medical scheme and to source for a suitable medical plan, the **former Chairman of the HKTB** said that:

- (a) she did not have any recollection that she had agreed to upgrade the ED's medical benefits. The Board authorised herself, Mr Stanley KO who was the then Chairman of the Staff and Finance Committee, and Ms Eva CHENG who was the then Commissioner for Tourism, to negotiate with the ED over the renewal of the latter's employment contract. At the later stage of the negotiation, she was further authorised to discuss with the ED the final terms of her renewal contract and no other person was involved. Hence, it was unlikely that she and the Chairman of the Staff and Finance Committee both agreed to the ED's request for an upgraded medical plan;
- (b) even if the ED thought that she had obtained verbal agreement from her and the Chairman of the Staff and Finance Committee for an upgraded medical plan during their discussion, it was inappropriate for the ED to instruct her subordinate to source for such a plan right after the meeting. The ED should know well that any term agreed during their discussion was subject to formal approval by the Board and the FS; and
- (c) as mentioned earlier, she had recorded the final terms agreed with the ED in her letter of 4 March 2004. These terms were subsequently approved by the Administration and incorporated into the ED's contract. She and the ED both signed the contract. If the ED considered that the terms in the contract did not sufficiently reflect what had been agreed to by both sides, it was reasonable to expect that the ED would have voiced her concern. However, no query had ever been raised by the ED as to why the contract only provided for the medical and dental benefits as set out in the Employees' Handbook instead of the upgraded medical plan which, according to the ED, had been verbally agreed during their discussion.

58. In view of the contradictory evidence of the former Chairman and the former ED regarding whether verbal agreement had been given for the latter to upgrade her medical benefits during their negotiation of contract renewal, the Committee invited the then Chairman of the Staff and Finance Committee to provide information in this respect.

59. In response to the Committee's questions about his involvement in the negotiation of the former ED's contract renewal and whether, according to his recollection, verbal agreement had been given for the ED to procure an executive medical plan, **Mr Stanley KO, former Chairman of the Staff and Finance Committee** stated at the public hearings and in his letter of 4 January 2008 (in *Appendix 36*) that:

- (a) in about January/February 2004, he and the former Chairman of the HKTB were responsible for discussing with the former ED the renewal of the latter's employment contract. There were many rounds of discussion and he only participated in the earlier meetings. It was the former Chairman of the HKTB who directly negotiated the final remuneration package with the former ED;
- (b) he remembered that at about the second meeting for discussing the former ED's contract renewal, the ED asked whether the medical insurance scheme for her could be extended to her family members upon renewal of the contract. According to the HKTB's policy at that time, the dependants of those employees who joined the HKTB after 1 April 1999 were not covered by the corporate medical scheme. Hence, the ED's family members were not covered. Given the ED's seniority and the fact that many large companies offered medical coverage to the family members of their senior employees, he considered the ED's request reasonable. He clearly remembered that both the Chairman and he agreed that the ED could source for a suitable medical plan for her family and herself. However, no specific agreements, e.g. the budget permissible for the plan, were reached at the meeting. They only agreed that the ED could source for a suitable plan for their approval afterwards. He had not followed up the outcome of the matter as he was not involved in the later meetings; and
- (c) according to his understanding, the ED wanted to have an executive medical plan that offered better coverage than the medical scheme set out in the Employees' Handbook of the HKTB. However, they had not discussed the details, including the coverage, of the plan. Also, he could not recall the ED having mentioned any inadequacies in the HKTB's corporate medical scheme.

60. Referring to section 9 of the former ED's second employment contract concerning medical and dental benefits, the Committee asked the former Chairman of the Staff and Finance Committee whether, in his view, it was correct for the former DED to state in her e-mail of 2 September 2004 that as part of the terms of the ED's contract renewal, the ED was entitled to join an executive medical plan for herself and her family.

61. The Committee further referred to section 14.3 of the former ED's contract, which stated that "This contract contains the entire understanding between the parties and supercedes all previous agreements and arrangements (if any) relating to the matters described herein. The terms hereto cannot be modified, supplemented or rescinded except by writing signed by both parties." The Committee asked the former Chairman of the Staff and Finance Committee whether he agreed that given this provision in the contract,

even if there had been a verbal agreement for the ED to source for an executive medical plan, that agreement would have been superceded by the written contract.

62. The **former Chairman of the Staff and Finance Committee** responded that:

- (a) although he and the former Chairman of the HKTB had agreed during the discussion of the ED's contract renewal that the ED could proceed to source for an executive medical plan that covered her family as well, formal approval of the plan was still required because details of the plan were not yet known at that time. After a suitable medical plan had been identified, it should be submitted to the Chairman of the HKTB for endorsement and the FS for approval in accordance with the requirements of the HKTB Ordinance. However, the approval procedure had not been mentioned during their discussion; and
- (b) he became aware of sections 9 and 14.3 of the ED's contract when he received a copy of contract, which was sent to him very late. He considered that the written contract represented the final agreement of the two parties to it. He also agreed that if any change was to be made to the terms specified in the contract, the proper procedure would have been to seek the endorsement of the Chairman and the Board of the HKTB, and the approval of the FS finally.

63. Regarding the remarks of the former Chairman of the Staff and Finance Committee that he received his copy of the ED's contract late, the **former DED of the HKTB** said that:

- (a) she omitted to send a copy of the ED's second employment contract to the copy addressees listed on it, i.e. the Permanent Secretary for Economic Development and Labour, the Commissioner for Tourism and the Chairman of the Staff and Finance Committee. She could not explain why this had not been done; and
- (b) she realised such an omission when the TC drew it to her attention vide a letter of 4 April 2006 (in *Appendix 37*). She then sent a copy of the contract to the copy addressees on 18 April 2006.

64. Responding to the Committee's questions on her involvement in the procurement of the executive medical plan, the **former DED of the HKTB** stated, at the public hearings and in her solicitors' letter of 9 January 2008 (in *Appendix 9*), that:

- (a) in about February/March 2004, her superior, the former ED, informed her that her request for an upgraded medical plan, which should be one that suited her and covered her family, had been approved by the Chairman. The ED also instructed her to proceed to find a suitable plan for her. She gave instructions to her subordinate, the then GM ITHR, to find a suitable plan and to liaise with the ED directly;
- (b) she had no further direct involvement with the decision to select the medical plan apart from dealing with any questions from the GM ITHR from time to time and to instruct the GM ITHR to get the best value out of the plan eventually shortlisted; and
- (c) her next major involvement was when she was informed on about 2 September 2004 that a medical plan had been found. She then sent an e-mail to the Chairman of the HKTB on 2 September 2004 seeking her approval for the plan.

65. As the former DED was the staff who drafted the former ED's employment contract upon the former Chairman's instruction and the staff instructed by the former ED to source for an upgraded medical plan, the Committee considered that the DED should know clearly that the benefits of the executive medical plan were not the same as the medical and dental benefits provided for in the ED's contract. The Committee queried why, in seeking the former Chairman's approval for procuring the executive medical plan, the former DED stated in her e-mail of 2 September 2004 that the executive medical plan was "part of the terms" of the former ED's contract renewal.

66. The **former DED of the HKTB** responded that she had no intention to mislead the former Chairman of the HKTB. As the former ED had told her that the Chairman had approved her request to upgrade her medical plan during their discussion of contract renewal, she had the understanding that the ED was entitled, as part of her contract renewal, to enrol on an executive medical plan for herself and her family. Hence, she stated the same in her e-mail of 2 September 2004. She did not mean that the executive medical plan was a term in the contract. It was an oral term.

67. The **former DED of the HKTB** further stated at the public hearings and in her solicitors' letter of 9 January 2008 that:

- (a) in about late March 2004, she was informed by the Chairman that the renewal of the ED's contract had been approved and was instructed to prepare a new contract. She therefore proceeded to prepare the new contract on the basis of the old contract;

- (b) as recorded in the handwritten notes on the draft second contract, she got confirmation from the Chairman on 29 March 2004 to continue allowing cash in lieu of the leave passage allowance. The notes also recorded that an upgraded medical plan had been agreed to by the Chairman. Although the former item as well as the ED's personal portion of her monthly mobile phone expenses never formed part of even the first employment contract between the HKTb and the ED, they were nevertheless verbally approved by the Chairman and provided by the HKTb to the ED. Further, there were other items in the ED's first employment contract, namely the provision of a private car with driver and membership of clubs, which were not in the list of items submitted in the Chairman's letter of 4 March 2004 to the Administration for approval. She therefore was not aware that the FS's approval was required for such items;
- (c) given the above factors and the fact that the Chairman had personally told her that it was not necessary to incorporate into the written contract that cash could be paid to the ED in lieu of the leave passage allowance, it caused no concern to her that she was not asked to include the upgraded medical plan as a specific term in the written contract. The renewal contract was then passed to the Chairman for follow-up with the ED; and
- (d) it appeared from the e-mails in the HKTb's possession that the renewal contract was probably not yet signed by February 2005. The fact that the ED continued working for the HKTb was evident of the existence of a renewal contract which had been agreed orally (including the approval given orally by the Chairman for the ED to have an upgraded medical plan), leaving only the creation of a written document to be executed by the parties.

68. Given that the former DED was the Secretary to the Board, the Committee questioned why she did not assist the former Chairman of the HKTb to seek the FS's approval for the former ED's terms of appointment. The Committee also asked why the former DED thought that the former Chairman had agreed to grant an executive medical plan to the former ED, and whether she had sought confirmation with the former Chairman or other persons involved. The **former DED of the HKTb** said that:

- (a) the ED verbally informed her that she had obtained the Chairman's agreement to upgrade her medical plan. The ED also instructed her to source for a suitable plan and seek the Chairman's approval for the premium after a suitable plan had been identified;

- (b) given the clear instruction from her superior, she did not seek further confirmation from the Chairman regarding the medical plan. After a suitable plan had been identified and the premium was known, she sent an e-mail to the Chairman on 2 September 2004 to seek her approval for the premium; and
- (c) it was true that she had not reminded the Chairman to seek the FS's approval for the executive medical plan. However, the seeking of approval from the FS for the ED's terms of appointment had all along been handled by the Chairman personally. She was only responsible for the administrative work involved.

69. As stated in the former DED's job description, she was the head of operational support and responsible for compliance and corporate governance issues as well as legal support. According to the former DED's employment history with the HKTA/HKTB, she was an auditor and accountant by profession. In view of the former DED's duties, background, experience and seniority in the HKTB, the Committee expected her to be very familiar with the proper procedures for handling contractual matters. The Committee therefore asked the reason why she did not take action to amend the contract in accordance with the provisions in section 14.3 when a suitable medical plan for the former ED was identified in September 2004, nor seek the Board's and the FS's approval for the medical plan.

70. The **former DED of the HKTB** responded that as she thought that the Chairman's agreement to provide the executive medical plan would suffice, it had not occurred to her that the ED's contract had to be amended and approved by the Board and the FS to provide for the medical plan. Moreover, from her experience, if she had any question about the benefits agreed to by the Chairman, all she had to do was to consult the Chairman, document in writing any approval given by the Chairman and then properly file the record.

The former GM ITHR's e-mail

71. The Committee noted that before the former DED sought the former Chairman's approval for the executive medical plan on 2 September 2004, the then GM ITHR had sent an e-mail to the DED on 12 July 2004 at 8:27 am (in **Appendix 31**), which stated that "I (the GM ITHR) thought about the medical scheme for Clara (the ED), and still feel a bit uncomfortable. I've mentioned to you earlier my concern as against the market practice, ...If we are go (sic) enroll Clara to the super medical scheme, will we be able to justify? Will there be credibility issue we need to worry? ..."

72. The Committee also noted that the former DED replied to the GM ITHR by e-mail 12 minutes later at 8:39 am (in **Appendix 31**), stating that “This was something agreed to by the Chairman in Clara (the ED)’s contract renewal i.e. allowing Clara to take out whatever medical plan she chooses. Her family is covered as well. This together with her family annual travel allowance (can pay Clara the equivalent amount of a business class return ticket to UK for her and family members even if they are not going to the UK for holiday i.e. same practice as her 1st contract are what the Chairman agreed in the contract renewal. I have the Chairman’s words directly. Since the amount is not significant, the Chairman agreed that these terms need not be written into the contract. ...”

73. As the former DED had admitted earlier that she had not sought confirmation from the former Chairman regarding the executive medical plan, the Committee queried why the former DED stated in her above e-mail that she had the Chairman’s words directly that the ED was allowed to join whatever medical plan she chose. Moreover, it appeared to the Committee that the then GM ITHR had raised a serious warning about the provision of the executive medical plan to the former ED. The Committee questioned why the former DED simply brushed the e-mail aside instead of acting on it, such as by bringing it to the former Chairman’s attention.

74. The **former Chairman of the HKTB** said that she was not aware of the then GM ITHR’s views. She also wondered why no one had informed her of the GM ITHR’s concerns about the executive medical plan. If she had been alerted to the views of the GM ITHR, chances were that she might have reconsidered the whole issue and the mistake could have been avoided.

75. The **former DED of the HKTB** said that:

- (a) she replied to the then GM ITHR’s e-mail shortly upon receipt only because she was busy every day and wanted to respond to the e-mail as soon as possible. On reading the e-mail, she considered that the GM ITHR was concerned about whether the ED was entitled to the executive medical plan. She therefore informed the GM ITHR that the plan had been agreed to by the Chairman; and
- (b) with hindsight, she agreed that she had inadvertently omitted some words in the sentence that “I have the Chairman’s words directly”. The sentence should be that “I have the Chairman’s words directly regarding the travel allowance”. The sentence about the Chairman’s agreeing not to include some terms in the contract as the amount was insignificant also referred to the travel allowance only, and not the medical plan.

76. The **former ED of the HKTB** said that she was not aware of the then GM ITHR's e-mail. If someone had drawn her attention to the GM ITHR's views, the result might have been different.

77. At the Committee's invitation, **Ms Brenda CHAN, former GM ITHR of the HKTB**, attended the public hearing on 20 December 2007 to give information on the issues relating to the executive medical plan.

78. The Committee asked the former GM ITHR:

- (a) about her involvement in the procurement of the executive medical plan;
- (b) why she stated in her e-mail of 12 July 2004 that the executive medical plan was a "super medical scheme", that enrolling the ED to such a plan was against the market practice, and that it was difficult to justify and could create credibility problem; and
- (c) whether she had voiced her concerns to any person other than the former DED.

79. The **former GM ITHR of the HKTB** replied that:

- (a) she was involved in the matter after she had received an instruction from her superior, i.e. the former DED, in April 2004 to source for a medical insurance plan that would meet the personal needs of the former ED. She was also told that the former Chairman had approved the provision of such a plan to the former ED upon renewal of the latter's contract. According to the instruction given to her, the plan to be sourced should offer extensive coverage, and should be very flexible with few restrictions on specialist consultation, acupuncture, etc. This was different from the HKTB's corporate scheme for other staff. Hence, she made enquiries with the DED in this respect;
- (b) in the process of sourcing for the medical plan, she had discussed the matter with the former DED during their regular meetings and on other occasions. She had also sent two e-mails to the DED setting out her views. On both occasions she received very clear information from the DED that the Chairman had agreed to provide a special medical insurance plan that would suit the ED's needs, and it was not necessary for the plan to be the same as that for other senior staff. As the message from the DED was very clear, she did not see the need to bypass the DED to seek clarification from the Chairman or the ED directly regarding her enquiries; and

- (c) being the GM ITHR, after her doubts had been clarified, she considered it her duty to act on the instruction to source for a suitable medical plan in the market.

80. The Committee further asked about the former GM ITHR's views on the former DED's e-mail of 12 July 2004 in response to her concerns about the executive medical plan. The **former GM ITHR of the HKTB** responded that:

- (a) it was stated in the DED's e-mail that the Chairman allowed the ED to "take out whatever medical plan she chooses". Her understanding was that the Chairman had given consent for the ED to choose a plan that suited her needs. This was consistent with the instruction given to her in April 2004 that after a plan had been identified in the market, the ED would decide whether it was suitable for her;
- (b) regarding the sentence "I have the Chairman's words directly" in the DED's e-mail, her understanding was that the Chairman had agreed to the taking out of the medical plan for the ED, and the DED had discussed this matter with the Chairman directly. This was also consistent with her understanding; and
- (c) as she had received a clear instruction from the DED, and had obtained both written and verbal clarifications to her enquiries, she executed the instruction and proceeded to source for a medical plan for the ED.

Date of the ED's signing of her contract

81. In the light of the former DED's remarks that the former ED's renewal contract was probably not yet signed by February 2005, the Committee asked when the former ED actually signed the contract.

82. In her letter of 2 January 2008 in *Appendix 38*, the **DED of the HKTB** informed the Committee that the HKTB was not able to retrieve documentary proof showing the exact date of signing of the second employment contract by the former ED. She also stated that as could be seen from the e-mails from 16 November 2004 to 28 February 2005 attached in her letter, the contract was still not signed as of February 2005.

83. As revealed in the above e-mails, the HKTB only became aware that the former ED had not signed her employment contract when the responsible staff initiated action on the payment of leave passage to the former ED in November 2004. It appeared to the Committee that in the absence of a duly signed employment contract, the HKTB did not have a proper basis for paying salary to the former ED. In the circumstances, the Committee queried why the former ED did not sign her own employment contract promptly when it was offered to her in April 2004.

84. The **former ED of the HKTB** stated at the public hearings and in her letter of 10 January 2008 that:

- (a) she recalled being given the original contract but was unable to recall when she actually signed it. She also could not remember why she did not fill in the date at the space provided when she signed the contract. There were lots of documents for her to sign on a daily basis, especially during her term at the HKTB when Hong Kong faced one of its most difficult periods. There was a possibility that the renewed contract was overshadowed by other more important tasks with which she was busy at the time; and
- (b) she did not recall that she had been reminded by some staff to sign back her contract. In fact, the above e-mails were not copied to her. She only realised that the renewed contract was not signed for sometime when she was reading through the e-mails in her personnel file, which was provided to her by the HKTB specifically for the public hearings.

85. The Committee further asked the former ED whether she had intentionally delayed signing the contract until the executive medical plan was procured because the plan requested by her was not provided for in the contract.

86. The **former ED of the HKTB** replied in the negative. She said that she had good working relationship with the former Chairman. She trusted that the former Chairman would honour the agreement to provide an upgraded medical plan to her.

87. The **former Chairman of the HKTB** said that she did not know that the former ED had not signed the contract when it was offered to her. In any case, it was clearly stated in the contract that the former ED's appointment would take retrospective effect from 19 March 2004 for a period of three years.

88. In response to the Committee's questions on the date of the former ED's actual signing of the contract, **Mr Benjamin TANG, Director of Audit**, informed the Committee of Audit's findings in this respect. He said that:

- (a) in a letter dated 4 April 2006 from the then Commissioner for Tourism to the former DED (in *Appendix 37*), it was stated, inter alia, that "In the undated contract of the ED/HKTB, which we presume was signed in April 2004, we notice that there is a clause of annual review of the monthly basic salary." In the former DED's reply dated 18 April 2006 (in *Appendix 39*) to the Acting Commissioner for Tourism, it was stated, inter alia, that "You referred to the undated contract of the ED/HKTB which carries a clause of annual review of the monthly basic salary. If I may clarify, the contract was in fact dated 2 April 2004"; and
- (b) reading the above information in context, Audit's interpretation at the time of the audit review was that the contract was actually signed by the ED on 2 April 2004. In the course of the audit study, Audit was not given the e-mails from 16 November 2004 to 28 February 2005 which revealed that the contract was not yet signed by February 2005. Hence, Audit was not aware that there was a problem regarding the signing of the contract.

89. In response to the Committee's enquiry, the **Commissioner for Tourism** said that the Administration's interpretation of the former DED's reply of 18 April 2006 concerning the date of the contract was the same as that of the Director of Audit.

90. In the light of the Director of Audit's above comment, the Committee referred to the above e-mails which revealed that the former DED was involved in reminding the former ED to sign back her contract. The Committee considered that the former DED should have been well aware of the fact that the former ED's contract was not yet signed as of February 2005. The Committee therefore asked the former DED for the basis of her reply to the Acting Commissioner for Tourism.

91. The **former DED of the HKTB** explained that her reply of 18 April 2006 sought to clarify that the former ED's contract was not "undated" as mentioned in the Commissioner for Tourism's letter, as there was in fact a date of 2 April 2004 printed in the top left-hand corner of the first page of the contract. She did not mean that the contract was actually signed by the former ED on 2 April 2004. She did not know when the former ED signed the contract as the former ED had not filled in the date in the space provided.

The Administration's role

92. The Committee also examined whether the Administration had gone through due process in exercising its statutory authority to appoint the former ED and approve the former ED's remuneration package and other terms of appointment.

93. In respect of the first contract of the former ED, the Committee noted that the former Chairman sent a letter to the then Secretary for Economic Services (SES) on 4 November 2000 (in *Appendix 40*) seeking the Administration's approval for the appointment of the former ED and the key terms of appointment contained therein. The then SES informed the former Chairman in her letter of 11 November 2000 (in *Appendix 41*) that the FS approved the appointment, and the key terms of appointment and remuneration package set out in the Chairman's letter. However, as it transpired, the former ED's first employment contract contained some terms which were not mentioned in the Chairman's letter.

94. The Committee considered that the Administration should have requested the HKTb to provide it with all the terms and conditions of employment of the former ED before approving her terms of appointment. However, the Committee noted Audit's observation in paragraph 4.22 of Chapter 5 of the Audit Report that the TC had not received a copy of the former ED's employment contract before recommending the reappointment, remuneration and terms of appointment of the former ED for the FS's approval in March 2004. In the circumstances, the Committee asked about the Administration's basis for approving the former ED's remuneration package and other terms of appointment.

95. The **Commissioner for Tourism** stated that the former Chairman of the HKTb had set out the proposed terms of appointment of the former ED in her letter of 4 March 2004. The FS gave his approval after considering the terms set out in Chairman's letter.

96. The Committee noted that while the former Chairman of the HKTb was a non-executive chairman, she was heavily involved in the daily operation of the HKTb, including the procurement of the former ED's medical plan. As the present incident reflected that there were serious problems in the HKTb's internal procedures and governance, the Committee asked about the actions that the Administration would take to improve its monitoring of the HKTb and to prevent the recurrence of similar incidents.

97. The **Commissioner for Tourism** said that:

- (a) the Administration became aware of the incident only upon receipt of the draft Audit Report in about September 2007. The Administration was very concerned because the executive medical plan had not been approved by the FS in accordance with statutory requirements;
- (b) in performing its monitoring function, the Administration attached utmost importance to whether a proper procedure had been formulated for appointing the HKTB's senior staff, particularly the ED and the DED whose remuneration and other terms of appointment were subject to the Administration's approval. The Administration noted that the HKTB had in fact put in place an established procedure in this regard. That being the case, it would be difficult for the Administration to check, on a daily basis, whether the HKTB had acted according to its established procedure; and
- (c) to improve the situation, apart from requesting the HKTB management to implement as many of the improvement measures as possible by the end of March 2008 to effectively enhance the internal governance of the HKTB, she had discussed with the current Chairman and current ED of the HKTB the need to increase the investigative power and resources of the internal audit division. At present, the head of internal audit reported directly to the ED, which might not be the most appropriate arrangement. Consideration was being given to changing the reporting line so that the head of internal audit would report to the Audit Committee and the Board.

98. The **Chairman of the HKTB** supplemented that:

- (a) the draft employment contracts for the current ED and DED had been forwarded to the TC in advance for necessary action; and
- (b) all the terms and conditions of employment for the current ED and DED had been incorporated into their employment contracts and approved by the Board and the Administration.

99. In view of the express terms of the employment contract, which did not provide for the executive medical plan, and the absence of required approval by the FS, the Committee asked whether the HKTB would take action to recover the premium of the executive medical plan.

100. **Mr Anthony LAU, ED of the HKTB**, stated at the public hearings and in his letter of 18 March 2008 (in *Appendix 42*) that the HKTB was currently seeking legal advice on whether any person should be held responsible for providing the executive medical plan to the former ED. Pending the completion and release of the Report of the Public Accounts Committee, the HKTB would seek further legal advice before deciding the next course of action.

D. Performance measurement and reporting

101. Paragraph 3.5 of Chapter 5 of the Audit Report revealed that the four groups of key performance indicators (KPIs), namely visitor arrivals, length of stay, spending and visitor satisfaction, set out in the HKTB's annual Business Plan and Budget only measured the tourism industry's performance, and could not directly measure the HKTB's performance in its marketing activities. Noting that the tourism sector was subject to the influence of external factors, such as the outbreak of the Severe Acute Respiratory Syndrome and the introduction of the Individual Visit Scheme (IVS) by the Mainland authority, which could undermine or boost the performance of the tourism industry, the Committee queried:

- (a) the relevance of the above KPIs to the HKTB's performance;
- (b) whether the HKTB had explored other indicators that measured return on investment to better reflect the effectiveness of a specific marketing activity; and
- (c) whether the HKTB had made reference to the good practices and performance measures adopted by other leading National Tourism Organisations.

102. The **former Chairman of the HKTB** said that:

- (a) before she was appointed as Chairman of the Board, there were no quantifiable KPIs for the HKTB. It was crucial for the HKTB, which was transforming into a strategic marketing organisation, to set out some KPIs against which its performance could be measured. Four KPIs closely related to the work of the HKTB in promoting tourism and attracting visitors were adopted. Although these KPIs might be subject to influence of external factors, they remained indicative of the HKTB's performance in marketing and promotion. Taking the IVS as an example, the Mainland visitors would not come to Hong Kong simply because of the availability of the Scheme. The HKTB had cooperated with the media, travel agencies and local authorities in the Mainland to launch a series of promotional

activities to disseminate travel information about Hong Kong to the Mainlanders. The HKTB had undoubtedly played an important part in tourism promotion;

- (b) the four KPIs should not be considered separately. Despite that the number of visitor arrivals in 2006 did not meet the HKTB's expected target, the per capita spending had exceeded the target as the HKTB had launched promotional activities specifically targeting visitors with high consumption power;
- (c) the effectiveness of marketing activities could only be realised after years of continuous efforts. For example, since the HKTB had staged the Hong Kong Shopping Festival from 2002, the number of visitors coming to Hong Kong in July and August had increased from over one million to over four million. This could not have been achieved without the efforts of the HKTB; and
- (d) the KPIs adopted by the HKTB might not be perfect and could be fine-tuned. The HKTB did make reference to other National Tourism Organisations' practices. However, each country had its special circumstances and some indicators might not be applicable to Hong Kong.

103. The **former ED of the HKTB** supplemented that she strongly advocated the adoption of quantifiable KPIs when she joined the HKTB because they provided an objective basis upon which the HKTB could plan its work and assess its performance. In addition to the above four KPIs, the HKTB also adopted a number of indicators to measure the performance of its marketing activities. For example, the statistics on usage and satisfaction of the HKTB's "DiscoverHongKong" website, satisfaction surveys upon completion of promotional activities, and publicity value achieved from public relation and media activities.

104. The **Chairman of the HKTB** said that in view of the Audit observation that the set of performance indicators for evaluating marketing activities adopted by the HKTB might not fully reflect the effectiveness of the HKTB's work, the senior management was reviewing the system and hoped to complete the review in 2008-2009. The HKTB would continue to consult the travel, academic and related sectors in order to identify indicators for measuring the HKTB's performance even more effectively, and develop strategies that could address the market needs even more fully.

105. The Committee noted from Appendix B of Chapter 5 of the Audit Report that "Convention and Exhibition Events" and "Convention and Exhibition arrivals" were two of

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the performance indicators under the KPI of visitor arrivals. As various organisations and commercial companies, for instance, the Hong Kong Trade Development Council (HKTDC), had been the major contributors to the development of the convention and exhibition sector in Hong Kong, the Committee enquired about the details of the HKTB's work in this aspect, the amount of resources that had been allocated to this area and the effectiveness of its work.

106. The **DED of the HKTB** provided the information in her letter of 2 January 2008 in **Appendix 43**, as follows:

- (a) the majority of conventions in Hong Kong were initiated by universities, professional associations or government departments. Many were secured through competitive bids against other destinations. Most exhibitions held in Hong Kong were recurrent and well established. The HKTDC organised about 40% of the exhibitions and other exhibitions were organised by other bodies;
- (b) as the convention and exhibition events brought high yield business visitors and significant economic benefits to Hong Kong, and raised Hong Kong's international profile, the convention and exhibition segment had always been recognised by the HKTB and the travel trade as a key strategic focus;
- (c) in promoting convention and exhibition, the HKTB worked with local professional and academic community to bid against competing destinations, cooperated with organisers of confirmed conventions in attendance generation, promoted visitor attractions and events to boost attendance and enhance visitor experience, carried out telemarketing and personal sales calls to overseas convention organisers, conducted brand building, led Hong Kong delegation to overseas missions and industry conventions to generate publicity and build awareness, etc;
- (d) in the HKTB, a team of four (one manager and three executives) based in the Head Office and one executive based in the London Office were dedicated full-time to the convention and exhibition segment. The budgets allocated to this segment were as follows:

	Business as usual (\$ million)	Discover Hong Kong Year additional fund (\$ million)
2005-2006 (actual spending)	4	3.8
2006-2007 (actual spending)	3.7	3.4
2007-2008 (budget)	4.6	Nil

- (e) as to the effectiveness of the HKTB's work, according to data collected from the organisers, there were close to 300 conventions and exhibitions held in Hong Kong during each of 2005 and 2006. They attracted some 0.5 million attendees from overseas in 2005, and over 0.7 million in 2006. Personal interviews conducted during major conventions and exhibitions showed that intended per capita spending was about two times of the spending of the average visitor. Convention and exhibition visitors also tended to stay longer in Hong Kong. Consequently their contributions to the hotel, retail and restaurant sectors were considered higher than the average. In addition, prestigious conventions and exhibitions raised Hong Kong's profile in the respective professions and industries.

107. According to paragraph 3.13 of Chapter 5 of the Audit Report, the HKTB's annual reports for 2001-2002 to 2005-2006 were tabled in the LegCo about one year after their year end dates (i.e. 160 to 217 days after the accounts had been certified by the auditor). The HKTB, through the then Economic Development and Labour Bureau (EDLB), informed the Home Affairs Bureau in October 2005 that it was practicable to submit its annual report within nine months after the reporting period, if the annual report was printed on plain paper with no artistic design. The Committee asked:

- (a) why the HKTB had taken such a long time to arrange tabling of the annual reports after the certification of accounts by auditor;
- (b) why printing requirements was considered an important factor for not being able to submit the annual reports earlier; and
- (c) why nine months were still needed if the annual report was printed on plain paper with no artistic design.

108. The **DED of the HKTB** replied in her letter of 2 January 2008 that:

- (a) the HKTB annual reports were printed in colours and on art paper, with a significant amount of photographic materials on Hong Kong scenes and attractions. This was because the publication, which was distributed to overseas travel trade and media through the HKTB WWOs, was also intended to fulfill the secondary function of showcasing and promoting Hong Kong's strengths and attractions as a premier tourism destination;
- (b) in September 2005, the then EDLB invited the HKTB's comments on whether the proposal of the tabling of the annual report three months after the end of the reporting period was a reasonable time limit. In replying the EDLB, the HKTB stated that "Understand that the LegCo Members are

interested to review the annual reports in whatever format we could produce, i.e. reports can be printed on A4 plain paper, after critically reviewing our current process, since the HKTB has a network of overseas offices and that we conduct majority of our activities in source markets, we would require a certain period of time to gauge the results, such as media exposure and the closing of accounts and completing the audit would require time as well. All these can barely [barely] be completed by the end of September”;

- (c) in determining the timeline for tabling the annual report, consideration had also been given to the fact that the audited financial statements approved by the Board would only be available in the end of September/early October each year, after which layout could be arranged. In addition, the final layout copy had to be submitted to the Board for comments and approval. Given that reasonable time had to be given to Board members for reviewing the copy, the whole process, including revisions, would take about two to three weeks. After securing the Board’s clearance, the HKTB would then proceed with the production and printing process, which would take around seven to 10 working days; and
- (d) the HKTB was exploring the possibility of advancing the schedule for the preparation and submission of the audited financial statements to the Board, so as to bring forward the tabling of the annual report after the end of the reporting period. The HKTB estimated that the production of the annual report could be completed within two months after the audited financial statements had been approved by the Board and signed off by the independent auditors.

109. The **Commissioner for Tourism** also said that the HKTB had undertaken to table its annual report in the LegCo by the end of December each year, and the annual report for 2006-2007 would be tabled at the LegCo meeting on 19 December 2007.

E. Remuneration and recruitment

Remuneration issues

110. According to paragraphs 4.7, 4.10 and 4.11 of Chapter 5 of the Audit Report, the HKTB had commissioned a consultant to conduct a remuneration study of its Head Office staff. The study, completed in September 2003, found that among other things, there were 11 cases where the Head Office staff’s salary was higher than 125% of the market median. The Board had on various occasions discussed how these cases should be dealt with. In July 2005, the Board decided not to reduce the salary of these staff. Further, another two staff were granted a salary increment in 2007-2008, as a result of which their salaries exceeded the maximum of the salary range. The Committee enquired about:

- (a) the respective numbers of these 11 staff who were on contract and on continuous employment, and their performance ratings; and
- (b) the justifications for allowing these staff to receive a salary higher than the maximum of their respective salary ranges, despite the fact that the salary ranges were approved by the Board having regard to the consultancy study.

111. The **DED of the HKTB** said in her letter of 2 January 2008 in *Appendix 38* that the 11 staff whose salaries were higher than 125% of the market median were on continuous employment (one was converted to contract term as from January 2004 due to employment after retirement age and this staff subsequently resigned from the HKTB in March 2005). According to a paper for the Board meeting held on 20 July 2005, these cases had been reduced to eight and the performance of all these staff was appraised at Band 3 or above, with one staff at Band 1 (top rating), three at Band 2 and four at Band 3.

112. The **former ED** and the **former DED of the HKTB** said that as most of these 11 staff had worked in the HKTB for a long time, their salaries were relatively high. Given that unilateral salary reduction was contractually not allowed, and that their performance had all along been satisfactory, the Board decided in July 2005 not to reduce their salary. It directed the management to manage these cases by containing the staff's future salary increase and to expand their role as far as possible. In March 2007, when discussing salary increase for Head Office staff, the Board, after careful deliberation, decided to offer a salary increase to these staff with top performance rating (i.e. Band 1).

113. The **Commissioner for Tourism** said that when the Staff and Finance Committee considered the annual salary review for 2007-2008, she was the only member who expressed reservation for giving a salary increase to the two staff given that this would result in their salaries exceeding the maximum of their respective salary ranges. Instead, she suggested granting a one-off payment as incentives for those with top performance to avoid further jetting up their basic salary. Nevertheless, in view of the rising staff turnover rate and the need to retain quality staff, the Board eventually decided that these staff be granted a salary increase.

114. The **Chairman of the HKTB** said that as at December 2007, there were nine staff receiving salaries exceeding the maximum of their respective salary ranges. Seven of them were in Hong Kong and two of them were WWO staff. They were in positions of Officer to Senior Manager, with none at the level of GM or above. Their salaries would be frozen in the next two years. With inflation and salary reviews of other staff in the coming two years, the problem would no longer exist after 2009.

115. The Committee noted that the HKTB seemed to have a great concern on staff retention. According to a paper circulated to Board members on 31 July 2004, the HKTB's staff turnover rate in the first quarter of 2004 had increased to an annual equivalent of 14% compared with 10% in 2003, the Committee asked:

- (a) whether the turnover rate of 14% in 2004 was considered high when compared to that in the preceding and subsequent years; and
- (b) about the posts and bands of the staff who left the HKTB in each quarter in 2004.

116. The **DED of the HKTB** said in her letter of 16 January 2008, in *Appendix 37*, that the annualised staff turnover rate of 14% in the first quarter of 2004 was considered high as compared to the overall staff turnover rate of 10% in 2003-2004, representing a significant upsurge by 40%. The actual overall staff turnover rate for 2004-2005 turned out to be 16% and even higher in subsequent years, further demonstrating the accurate observation of the upward trend. The staff turnover rates from 2001-2002 to 2006-2007 were as follows:

2001-2002	13%
2002-2003	15%
2003-2004	10%
2004-2005	16%
2005-2006	25%
2006-2007	21%

A quarterly turnover record of staff who left the HKTB in 2004 was also attached to this letter.

117. The Committee noted from Table 1 in Question 5 of a LegCo paper (LC Paper No. CB(1)1671/04-05(02)) (in *Appendix 44*) that the number of Band D staff had significantly reduced from 126 in 2000-2001 to 76 in 2001-2002 and further to 73 in 2005-2006 whereas that of Band B staff had increased from 34 in 2000-2001 to 43 in 2005-2006. On the other hand, the maximum monthly salary for Band A and Band B staff (i.e. Manager and above grades) had increased over the years from 2000-2001 to 2005-2006 whereas that for Band C staff had reduced. The Committee questioned the reasons for the decrease in the staff number and maximum monthly salary of the lower grade staff, and whether this represented the phenomenon of “fattening the top and thinning the bottom”.

118. The **former ED of the HKTB** said that:

- (a) before she joined the HKTB in 2001, the HKTB had started to undergo a process of staff retrenchment because of the reduction in government funding. The number of Band D staff had already reduced from 157 in 1999-2000 to 126 in 2000-2001, which was before her time as the ED. Further, the change of functions of the then HKTA from a membership organisation to a marketing organisation in 2001 also necessitated a review of manpower requirements. The decrease in the number of Band D staff was largely due to the outsourcing of the research function at that time; and
- (b) the HKTB was an organisation with established systems and policies. All major decisions were made by the Board after thorough consideration. With the approval of the Board, the HKTB had adjusted its salary ranges of each staff band to the market level in 2004 having regard to the recommendations of the consultant's remuneration study. One of the adjustments was to raise the minimum pay of Band D staff. There was thus no question of "fattening the top and thinning the bottom". The average actual monthly salary of staff in each staff band in the past few years provided a more accurate depiction of the actual salary levels of HKTB staff.

119. The Committee then asked about the number of Band D staff reduced due to outsourcing, and whether there were other reasons leading to the reduction of Band D staff. The Committee also enquired about the average actual monthly salary of the HKTB staff from 1999-2000 to 2005-2006 by the four different staff bands.

120. The **DED of the HKTB** replied in her letter of 2 January 2008 that the decrease in the number of Band D staff from 126 in 2000-2001 to 76 in 2001-2002 was attributable to outsourcing of research fieldwork (11 staff were cut), re-allocation of workload in Finance and Administration, Tourism and Convention Marketing, Marketing Communications and Human Resources functions as well as streamlining and automation of work processes in line with the objective of the Government's Enhanced Productivity Programme, and in order to allow for re-allocation of resources to overseas marketing activities. The **DED of the HKTB** also provided the average actual monthly salary of Head Office staff from 1999-2000 to 2005-2006 in the *Attachment to Appendix 38*.

Thirteenth month pay

121. According to paragraphs 4.16 and 4.17 of Chapter 5 of the Audit Report, the Board approved in May 2004 the recommendation of the consultant to replace the

13th month pay for Band B staff and below (i.e. Senior Manager and below) by a performance-based variable payment with effect from April 2005. The Board was informed by the management in July 2004 that since the staff side did not support this arrangement, the performance-based variable payment should be introduced after 2005-2006 when the new performance management system (PMS) and the variable payment mechanism were ready. However, such an arrangement had not been introduced up to June 2007. The Committee enquired about the reasons for such delay and whether the HKTb had sought the Board's direction on the latest position of the arrangement.

122. The **DED of the HKTb** said in her letter of 2 January 2008 that according to a paper for the Board meeting on 31 July 2004, the former DED recommended the implementation of the performance-based award scheme for staff at the rank of Senior Manager and below at a date after 2005-2006 when the macro environment was more conducive to such a change and the revamp of the PMS was completed. On 24 March 2006, the former DED reported to the Board about the progress of revamping the PMS and sought the Board's approval on implementation of the new PMS from 2006-2007. The new PMS was subsequently implemented in 2006-2007.

123. The **former DED of the HKTb** added that since the new PMS had just been implemented in 2006-2007, the management needed more time to collect feedback from the staff concerned on the new system before considering replacing the 13th month pay with variable payment.

Performance-based variable payments

124. Regarding the performance-based variable payment for the HKTb's Head Office Band A staff referred to in paragraph 4.29 of Chapter 5 of the Audit Report, the Committee asked about the details relating to the introduction of the variable payment to these staff, and the basis of the former ED's authority for approving the variable payments to the former DED and the GMs.

125. The **DED of the HKTb** stated in her e-mail of 12 December 2007 (in *Appendix 45*) and her letter of 23 January 2008 (in *Appendix 46*) that:

- (a) the variable payment was first introduced since the former ED's appointment in March 2001. The then Chairman sought the Board's endorsement on the proposed terms of employment for the former ED and obtained the Government's approval for the key terms of employment including the variable payment. The variable payment was made part of the former ED's contract terms and it was termed as "incentive award" in

the contract. According to the contract, the former ED was eligible for an incentive award of 10% of her total annual basic salary subject to satisfactory achievement of quantifiable targets as agreed with the Board on an annual basis, for instance, tourism arrival, tourism spending, etc, and the award would be payable annually at a time to be agreed between the former ED and the Board;

- (b) the variable payment was then introduced to other Band A staff who were subsequently appointed, e.g. the General Manager, Strategic Planning and Marketing (GM SPM) in April 2001, General Manager, Destination Marketing (GM DM) in August 2001, General Manager, Corporate Communications and Public Relations (GM CCPR) in January 2002, or promoted, e.g. Mrs Grace LEE (DED in January 2003). It was set out in their respective contracts that the targets and the payment time were to be agreed with the ED instead of with the Board and their employment contracts were all signed by the ED; and
- (c) there was no procedure laid down by the Board for the former ED to seek approval from the Board or the Staff and Finance Committee in respect of her assessment of the former DED's performance as well as the decision on granting of variable payment to her. The former ED had exercised the contractual obligation on behalf of the HKTb to assess the former DED's performance and approved payment of the incentive award to her accordingly.

126. According to paragraphs 4.30 to 4.32 of Chapter 5 of the Audit Report, the award of performance-based variable payment was based on the achievement of targets and defined objectives as agreed with the relevant authority. However, there was no documentary evidence to show that the targets and defined objectives had been agreed with the senior staff concerned for determining the award of the performance-based variable payment to them. According to the HKTb, the four performance indicators (visitor arrivals, tourism spending, length of stay and satisfaction level) and the other objectives in the HKTb's annual Business Plan and Budget were considered as the agreed targets and defined objectives. However, Audit observed that different criteria had been used for determining the award for the senior staff between 2004-2005 and 2006-2007, as evidenced in paragraphs 4.34 to 4.39. In view of the above, the Committee questioned:

- (a) whether the targets and objectives for determining the performance-based variable payment were decided by the senior staff themselves;
- (b) the criteria for awarding the DED and the GMs full variable payments between 2004-2005 and 2006-2007, despite the fact that some of them had failed to meet a number of the reported targets or KPIs indicated in the self-assessment reports prepared by the respective senior staff; and

- (c) whether the performance targets such as visitor arrivals and tourism spending could accurately reflect individual staff's performance as the achievement of these targets largely depended on external factors.

127. The **former ED of the HKTB** replied in her letter of 11 December 2007 in *Appendix 47* that:

- (a) every year she as the ED would need to go through a series of consultative meetings with the GMs, the DED and the key managers to discuss the Functional Plan of each division. Once the Functional Plan was completed, it became the official document containing the annual objectives agreed with each GM and the DED. The Functional Plan was included as part of the annual Business Plan which was approved by the Board. It was based on these agreed objectives listed in the Functional Plan that the GMs and the DED were appraised at the end of the year;
- (b) regarding the assessment criteria for deciding the variable payments to the former DED and GMs, besides the agreed KPIs, other factors, including successful implementation of the key initiatives described in the Functional Plan, were considered. At the same time, the attainment of KPIs would be evaluated within the context of the external factors that had any major bearings on the overall tourism performance of Hong Kong. In its letter to the Government dated 16 May 2003, the Board also expressed its views on the evaluation of the performance of senior staff that there would be practical difficulties in directly relating the activities of the HKTB and the key performance indicators. Owing to the inherent nature of the HKTB's operation and its dependence on external factors beyond its control, it was inappropriate to incentivise its executives purely on achievement of specific KPIs;
- (c) the performance of the GMs for the years 2004-2005 and 2005-2006 was evaluated using the same yardstick adopted by the Board in assessing her performance as the ED. After the assessment of the quantitative objectives (i.e. the agreed KPIs), the outcomes of the key initiatives in the Functional Plans were also examined. After considering both the quantitative and qualitative achievements, she then decided if the GMs had delivered an overall satisfactory performance that justified the award of the variable payments. As for the assessment for the DED, since her accountabilities covered mainly the back end operations of the organisation, the annual objectives were mainly qualitative deliverables of each sub-functional area, including human resources, legal support, finance, systems and information technology and office administration. An overall satisfactory performance had qualified the DED for receiving full variable payments for the years 2004-2005 and 2005-2006;

- (d) for the year 2006-2007, she adopted the appraisal format of the new PMS approved by the Board in 2006 to assess the overall performance of the DED and the GMs. One of the major benefits of the new PMS was that it allowed the organisation to focus on both qualitative and process outcomes, rather than purely assessing the job incumbent on numerical results. The performance of the DED and the three GMs was all satisfactory (i.e. with a score of “3” or above), hence justifying her decision of awarding the variable payments to them; and
- (e) in sum, she had carefully examined the achievements of both the KPIs and the major initiatives, the quality of the implementation processes and the final outcome of each strategic focus in deciding the overall performance of these staff.

128. Turning to the variable payments to the former ED, the Committee referred to paragraphs 4.34 to 4.37 of Chapter 5 of the Audit Report and asked:

- (a) why the former ED’s self-assessment report for 2004-2005 was only submitted to the Remuneration Review Committee (RRC) in February 2006, almost one year after the end of the performance period of March 2005;
- (b) why the former ED was granted variable payments in full in 2004-2005, despite the fact that she did not meet three of the nine reported targets; and
- (c) why the former ED was granted 62.8% of the full payment for 2006-2007 although two of the five targets were not met.

129. The **former ED of the HKTB** said at the public hearing and in her letter of 11 December 2007 that:

- (a) the assessment report for 2004-2005 had not been submitted timely as she had to wait for the evaluation results of some marketing programmes in order to present a comprehensive report. Moreover, priority had been given to other more pressing tasks amidst her heavy workload, thus causing the delay; and
- (b) the external factors taken into account when evaluating her performance in 2004-2005 were the rapid expansion of visitors under the IVS which lowered the average length of stay of the overnight visitors, and the change in survey samples to cover the two land control points in Lo Wu and Lok Ma Chau where most IVS visitors used. Although a lower average overnight per capita spending was recorded for Mainland visitors, the per

capita spending of other major source markets all registered growth. This explained the decision of the RRC to award the full amount of the variable payment to her in 2004-2005.

130. The **former Chairman of the HKTB** explained that:

- (a) with the introduction of the IVS in 2003, there was a huge increase in the number of Mainland visitors in 2004-2005 but the visitors' length of stay decreased, resulting in the non-achievement of some targets. Having considered these mitigating factors as well as the ED's achievement of other targets, the RRC accepted the ED's self-assessment as detailed in her annual report and decided to grant full variable payment to her in 2004-2005;
- (b) according to paragraph 3.4 of Chapter 5 of the Audit Report, the then EDLB also stated that the effectiveness of the performance of the HKTB could not be assessed entirely in quantifiable terms. Therefore, in assessing the ED's performance, the RRC had not only considered the achievement of targets as set out in Table 8 of the Audit Report, but also the performance indicators relating to visitor arrivals and spending as recorded in Table 3. All these indicators had recorded a healthy growth over the past few years, demonstrating the efforts made by the former ED; and
- (c) in determining the award of the variable payment for 2006-2007, the RRC had decided to fine-tune some of the performance targets used for assessing the performance of the ED and adopted a more scientific and mechanical approach to take into account the non-achievement of targets, thus resulting in the decision of granting 62.8% of the full payment.

131. The **Commissioner for Tourism** said that the RRC met on 27 March 2007 to discuss the performance of the former ED for 2006-2007 and the variable payment payable to her. Members of the RRC agreed to adopt a quantitative assessment of the four KPIs to determine the amount of the variable payment. The calculation was mechanical and had not taken into account any mitigating factors to ensure objectivity. Details of the calculation were recorded in the RRC minutes.

132. The Committee then asked Audit whether the RRC's considerations in awarding full variable payment to the former ED for 2004-2005 had been clearly documented, and about Audit's observations and recommendations in this regard. The **Director of Audit** said that:

- (a) the record of the RRC meeting held on 22 March 2006, at which the variable payment to the ED for 2004-2005 was discussed, only stated that “the evaluation was based on the key performance indicators (KPIs) as set out in the FY2004/2005 annual business plan including visitor arrivals, length of stay, per capita spending, satisfaction and other qualitative marketing and management achievements. The committee unanimously agreed to pay the full amount of variable pay of \$589,000 for the period 19/3/2004 to 18/3/2005 to the ED”. Apart from this, there was no other record of the justifications for the RRC’s decision; and
- (b) in Audit’s view, from the perspective of good corporate governance and for the purpose of objectively determining the award of performance-based variable payments, the HKTB should have clearly spelt out and documented the specific performance indicators agreed with the respective staff and which would be used in performance appraisal. Any other considerations that would be taken into account for the determination of the award should be documented as well.

133. In view of the deficiencies in the HKTB’s mechanism for determining the performance-based variable payments for senior staff, the Committee asked when and how the PMS could be enhanced.

134. The **Chairman of the HKTB** stated that a new performance appraisal system would be put in place in 2008-2009. In addition to the existing four performance indicators, other indicators, such as management abilities and achievement of functional objectives, would be added to the pool of criteria for assessing the performance of Band A staff under the new system. In the past, the variable payments of the DED and all GMs were approved by the ED. Under the new system, the variable payments of all Band A staff would be subject to the approval of the RRC of the Board. In the event that a Band A staff failed to meet the pre-set criteria, the staff concerned would not be granted the full amount of the performance-based variable payments.

135. In respect of the progress of the review, the **DED of the HKTB** said in her letter of 14 February 2008 that while the principle for the proposed PMS for Band A staff (including the respective weighting proposed for the KPIs, Key Strategic Focuses and competency assessment) had been endorsed by the Staff and Finance Committee on 10 January 2008, the management was tasked to further consult the Band A staff on the proposed mechanism before seeking the Board’s approval in March 2008.

Staff recruitment

136. The Committee noted from paragraph 4.55 of Chapter 5 of the Audit Report that in four of the 15 cases examined by Audit, there was no record showing the number of applicants and the number of candidates shortlisted for interview. In all of the 15 cases, the shortlisting criteria were not documented. To ascertain the extent of problem in the HKTB's human resource management, the Committee asked whether there were records showing the respective numbers of applicants and candidates shortlisted for interview for senior positions, including the posts of GM ITHR and GM SPM, during the period when the former ED of the HKTB was in post.

137. In reply, the **DED of the HKTB** stated in her letters of 16 January 2008 (in *Appendix 48*) and 23 January 2008 that:

- (a) there were a total of five GMs ITHR and one GM SPM recruited when the former ED was in post. For the GM ITHR recruited on 5 February 2007, 38 applications had been received and six were shortlisted. For the GM ITHR employed between 5 January 2004 and 31 January 2007, the HKTB posted a printed advertisement in the South China Morning Post. Five applicants had been shortlisted for interview yet there was no record of the total number of applications received. The two GMs ITHR employed between 27 July 2002 and 1 July 2003 and between 2 August 2001 and 17 November 2001 respectively were recruited through search firms. For the recruitment of the former one, two applicants had been shortlisted but the record of the total number of applications received could not be located, whereas for the latter one, the record of the number of applicants and shortlisted candidates could not be located. For the GM ITHR employed between 16 July 2003 and 17 October 2003, he submitted an application letter in response to the HKTB's printed advertisement in the South China Morning Post but the record of the number of applications received could not be located; and
- (b) for the recruitment of the former GM SPM, Ms Jacqueline TONG, the post had not been advertised and no person other than Ms TONG had applied for or had been interviewed for the post. Ms TONG was recruited by referral from the former ED and interviewed by Mr Stanley KO, former Chairman of the Staff and Finance Committee and Mrs Selina CHOW, former Chairman of the HKTB. Record of the interviewers' assessment on Ms TONG could not be located.

138. The Committee asked whether the former ED was acquainted with any of the above GMs who were recruited when she was in post. The **former ED of the HKTB** said that she was acquainted with Ms Jacqueline TONG and familiar with her work performance when they worked in the same bank before. She also knew Ms Brenda CHAN as a former colleague. Since they worked in different departments at that time, they did not have much contact.

139. In view of the fact that Ms Jacqueline TONG had been referred by the former ED to the post of GM SPM and that no open recruitment had been conducted for this post, the Committee asked the former ED:

- (a) why she referred her former colleague to the post of GM SPM; and
- (b) whether she had sourced other candidates or advised the then Chairman of the HKTB and/or the then Chairman of the Staff and Finance Committee to go through an open recruitment process.

140. The **former ED of the HKTB** responded that:

- (a) when she first joined the HKTB, she was tasked to transform the HKTB into a marketing organisation. To achieve this aim, it was important to engage an expertise who was not only good at managing large-scale databases but also capable of turning data into strategic plans. Such talents were rare in the market. As Ms TONG was very strong in data mining and had rich experience in marketing promotion, she referred her for consideration by the HKTB; and
- (b) to avoid conflict of interest, she invited the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee to interview Ms TONG. She herself was not involved in the interview or the decision making process of this recruitment exercise. On procedural issues, since she was new to the HKTB at that time and was not clear about the HKTB's recruitment procedure, she had relied on staff in the ITHR Department to offer advice if they considered there were any problems. She was not sure whether the ITHR Department had placed any advertisement for this post, or shortlisted other candidates for interview.

141. As both the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee were involved in the interview of Ms TONG, the Committee asked:

- (a) why they only interviewed the single candidate referred by the ED without going through an open recruitment procedure; and
- (b) whether, with hindsight, it would be more open and fair if the position was recruited through open recruitment or search firms so that the HKTB could consider other qualified candidates in the market.

142. The **former Chairman of the HKTB** said that for this particular recruitment, her focus was on whether the candidate possessed the relevant expertise in marketing communication and strategic planning, which was essential for the HKTB's transformation into an information-based marketing organisation. The fact that Ms TONG was referred by the former ED had not influenced her appointment decision. At that time, she was more concerned about hiring the right person for the HKTB as soon as possible instead of the procedural aspects. Ms TONG's subsequent performance in the HKTB proved that the decision to appoint her was a correct one. With hindsight, the recruitment process could have been improved for better public perception.

143. The **former Chairman of the Staff and Finance Committee** said that:

- (a) when the HKTA was reconstituted into the HKTB in 2001, it urgently needed to build up a marketing team and was looking for talents in marketing promotion and strategic planning. No internal candidates were considered suitable for taking up this new portfolio at that time. The former ED therefore recommended Ms TONG for the HKTB's consideration. Although the former ED's views on the candidate might serve as a reference, the decision to appoint Ms TONG was based on his independent judgement, having considered her qualifications and experience. In view of urgency, no further candidates were sourced through other channels; and
- (b) with hindsight, although it might be better if the HKTB had advertised the post or engaged a head-hunting firm to search for candidates, the same candidate would have been chosen as the performance of Ms TONG in the HKTB showed that she was indeed a talent. As of today, he would still stand by the decision of recruiting Ms TONG.

144. The Committee then enquired about the recruitment procedures applicable at the time when Ms TONG was recruited. The **former DED of the HKTB** said that although she was not yet responsible for overseeing human resources matters at that time, she noticed from the HKTB's records that the Staff and Finance Committee had, at its 9th and 10th meetings held in 2005, endorsed the HKTB's established human resource practices

regarding recruitment and other matters which were carried over from the past years. Records showed that the HKTB had adopted different means to source the most suitable candidates, with referral being one of the possible options apart from advertising and recruiting through search firms.

145. The **DED of the HKTB** stated in her letter of 23 January 2008 that no record of recruitment procedures applicable to the recruitment exercise of Ms TONG at that time could be located.

146. According to paragraphs 4.53 and 4.54 of Chapter 5 of the Audit Report, in one of the 15 cases examined by Audit, a selected candidate, before reporting for duty at the HKTB, had taken part in the interview of another recruitment exercise, and in 11 cases, only one HKTB staff member conducted the interviews. The Committee asked:

- (a) why the would-be staff had been asked to take part in an interview before she assumed duty; and
- (b) why panel interviews were not conducted for the majority of the cases examined by Audit.

147. The **former ED of the HKTB** said that:

- (a) the would-be staff in question was appointed as the marketing manager for the Quality Tourism Services (QTS) Scheme. Since the interview was for hiring her subordinate, and given that she had worked in the QTS Association for a long time and was familiar with the operation of the QTS Scheme at the HKTB, she was invited to participate in the interview; and
- (b) the would-be staff was not the only interviewer. Normally representative of the ITHR Department would be the first interviewer and the line managers the second and third interviewers. The appointment would be a joint decision. When responding to an assignment report of the ICAC in July 2006 concerning staff recruitment, the HKTB had agreed that panel interviews would be conducted as far as possible. Yet, this did not preclude the possibility of having one staff member conducting an interview if necessary.

148. The **Director of Audit** commented that the would-be staff conducted the interview in September 2006 but she did not assume duty until November 2006. Although the first round of interview was conducted by the ITHR Department, the second round was conducted by this would-be staff alone. She met three candidates and recommended two of them to the Senior Manager, who conducted the final interview. Audit considered that staff selection interviews should only be conducted by HKTB staff.

F. Procurement matters

149. According to paragraph 5.2(c) of Chapter 5 of the Audit Report, the marking scheme for tender evaluation under the HKTB's Financial Policies and Procedures (FPP) specified a weighting of 60% to 80% for technical score. The Committee asked why the weighting was much higher than the normal weighting of 30% to 40% for technical score set out in the Government's Stores and Procurement Regulations.

150. The **former ED of the HKTB** said that most of the marketing activities of the HKTB, for example, advertising campaigns and mega events, required creativity, and were different from the requirements of government projects. Hence, a heavier weighting on technical score was considered necessary and endorsed by the Staff and Finance Committee.

151. As revealed in paragraph 5.6 of Chapter 5 of the Audit Report, the HKTB entered into a contract with a contractor at a cost exceeding \$3 million. Subsequently, the responsible HKTB staff requested the contractor to carry out additional work totalling \$0.95 million without obtaining prior approval from the ED. The Committee asked why the staff concerned did not seek the ED's approval for contract variation, and whether the staff was disciplined.

152. The **former ED of the HKTB** said that the additional work involved structural reinforcement requested by the Government for safety reason, and repair work arising from destruction by rainstorm, etc, which needed to be carried out urgently. Since procurement of each of the additional work items was within the approval limit of a GM (i.e. \$200,000), the GM concerned did not seek her approval. When the matter was brought to her attention, the GM was warned and advised not to do so in future. All staff had been reminded to obtain prior approval from the appropriate authority for the projected aggregate amount arising from contract variations and to provide full justifications for making variations.

G. Other administrative issues

Entertainment expenses

153. Regarding the four cases of project-related entertainment expenses which had exceeded the cost-per-head spending limits stipulated in the FPP in paragraph 6.7 of Chapter 5 of the Audit Report, the Committee referred to Case C2 in particular and asked why the entertainment expenses had far exceeded the cost-per-head spending limit.

154. The **former ED of the HKTB** said that this case involved a press conference and a lucky draw dinner reception relating to the Hong Kong Shopping Festival, and should not be regarded as an ordinary entertainment event nor compared against the cost-per-head spending limits. In fact, many of the HKTB's projects included hospitality elements, such as the provision of food and beverage, and should not be taken as entertainment for individual guests. For instance, Cases C3 and C4 were respectively a seminar plus lunch for business networking and an opening dinner reception for the WWO in Korea attended by top officials of the Korea tourism organisations and travel trade partners.

155. The Committee sought the Director of Audit's views on the former ED's above comments. The **Director of Audit** said that the HKTB had no separate guidelines governing food and beverage expenses for project-related entertainment expenses. Audit had rightly examined the HKTB's entertainment expenses in accordance with the cost-per-head spending limits stipulated in the FPP. Moreover, covering approvals for the excesses were obtained for these cases (for Case C2, the ED granted covering approval about five months after the event), although the FPP stipulated that prior approval should be sought from the supervisor if it was likely that the spending limit would be exceeded, and the reasons for the excess should be properly documented.

156. The Committee noted from paragraph 6.15(a) of Chapter 5 of the Audit Report that the HKTB would submit a new policy to the Staff and Finance Committee for approval by the fourth quarter of 2007 to separate the food and beverage expenses of projects and events from ordinary entertainment expenses. The Committee enquired about the details of this new policy.

157. The **DED of the HKTB** said in her letter of 14 February 2008 that the HKTB was working on the new policy for project-related entertainment expenses. Since more time was required for internal consultation, the HKTB planned to have the new policy submitted to the Staff and Finance Committee for approval by the end of May 2008.

Business travel expenses

158. According to paragraph 6.19 and Appendix F of Chapter 5 of the Audit Report, a Manager submitted a request for a business trip to France and the United Kingdom from 16 to 24 May 2006. The travel request form, together with her leave application form (from 25 to 30 May 2006), were submitted to the former DED for approval. The former DED approved her leave application but disapproved her travel request. However, the rejected travel request form had not been received by the Manager concerned even on the day of her departure from Hong Kong. As a result, the Manager went on the trip assuming that her request was approved.

159. Regarding the HKTB's response to Audit in September 2007 that "both the staff who took the trip and the staff who approved the trip had already left the HKTB" (paragraph 6(a) of Appendix F), the **ED of the HKTB** clarified that the staff members were indeed the Manager concerned and the former DED, who was the approval authority for this case. Both of them left the organisation in 2007.

160. The Committee asked the Manager concerned why she commenced her trip before obtaining approval from the relevant authority. **Ms Claire LAU, former Manager of the HKTB**, provided an account of the incident and a sequence of events vide her letters of 10 December 2007 and 19 March 2008 in *Appendices 49 and 50* respectively. In response to the Manager's letter, **Miss Cynthia LEUNG, GM CCPR of the HKTB**, i.e. the then Senior Manager who recommended the Manager to go on the trip, also provided explanations in her e-mail of 11 December 2007 in *Appendix 51* and a sequence of events vide her letter of 2 April 2008 in *Appendix 52*. The relevant e-mail correspondence pertaining to this case is in *Appendix 53*.

161. The **former Manager of the HKTB** said that having worked in the HKTB for 15 years, she had all along followed the required procedures to obtain approval for business trips. According to the HKTB's usual practice, staff member who was assigned to go on a business trip would be informed by the supervisor either verbally or by e-mail. The staff member would then complete a travel request form to seek the relevant authority's approval. As she was asked by her supervisor, Miss Cynthia LEUNG, to attend the market study, she had never thought that her trip was not approved. In fact, before her departure and on the day of her departure, she had asked Miss LEUNG several times whether the processed form had been received. Miss LEUNG told her that the former DED had enquired about this case, but there should be no problem as she would talk to the DED. She had not been informed by Miss LEUNG that her application was not approved.

162. The Committee then asked the GM CCPR of the HKTB:
- (a) whether the Manager had followed up the request form with her before departure;
 - (b) whether the former DED had indicated to her that the travel case was not approved before the Manager commenced her trip; and
 - (c) why she had not ensured that approval was obtained before the Manager commenced her trip.
163. The **GM CCPR of the HKTB** said that:
- (a) when the former DED telephoned her to enquire about this case before, the DED only asked a few questions, such as the purpose of the trip and why the Manager was recommended. The DED had not indicated disapproval of the case. In fact, it was not uncommon for the DED to seek further information before granting approval to applications of various types;
 - (b) the former Manager enquired with her on either 11 or 12 May 2006 (i.e. a few days before the Manger’s departure) why the travel request form had not been returned since she had already received the approved leave application form. She told the Manager that the DED had called her to seek further information and the case was still being processed. She could not recall having told the Manager that there would be no problem and that she would talk to the former DED. The Manager did not bring this matter up to her again on the day or the day before departure. It was not until the Manager had returned from the trip that it was realised that the former DED had rejected the travel request; and
 - (c) as it should be the applicant’s responsibility to ensure that approval was obtained before departure, coupled with the fact that she had other work commitments at that time, she had not paid special attention to this case. Neither the Manager concerned nor her secretary had alerted her that the application form was still not received on the day of departure. Should this situation had been brought to her attention earlier, she would definitely have checked with the former DED to ascertain if approval for the case had been given.

164. The Committee asked the former DED of the HKTB:
- (a) whether she had ever informed the GM CCPR that the Manager’s travel request was disapproved;
 - (b) whether she had tried to find out why the rejected request form had disappeared; and
 - (c) why she indicated that she “had no choice but to approve” the travel case when the Manager re-submitted the travel request form on 12 June 2006 (see *Appendix 54*) after returning from the trip.
165. The **former DED of the HKTB** responded that:
- (a) she did telephone the GM CCPR to ascertain why she recommended the Manager to join the study, but there was no specific indication at that time that the case would be disapproved. She mentioned that she had to consult the former ED. After discussing with the former ED, she disapproved the case;
 - (b) when she received the re-submitted travel request form from the Manager, she immediately asked her secretary whether she had returned the rejected form to the GM CCPR. She noted that her secretary had replied to the secretary to the GM CCPR by e-mail on 15 May 2006 that the form was on its way to the GM CCPR. She also checked with the GM CCPR why the GM CCPR’s secretary had not followed up the form after being informed that it had been sent out from the DED’s office; and
 - (c) as the trip was useful to the work of the Manager, and the Manager had also taken the opportunity to arrange meetings with the media, her counterparts in the WWOs and other public relations agencies, and taking into consideration that she had worked in the HKTB for over 10 years with good performance, she gave the Manager a “benefit of doubt” and approved the reimbursement.
166. To ascertain why the form had not been received by the GM CCPR and/or the Manager concerned, the Committee invited **Miss Sandy LAU, secretary to GM CCPR of the HKTB**, who passed the travel request form to the former DED for approval, and **Miss Rita WONG, secretary to DED of the HKTB**, who returned the processed travel request form to the GM CCPR, to appear before the Committee to provide more information concerning this case.

167. The Committee asked Miss Sandy LAU why she had not alerted the GM CCPR after noting that the Manager's processed travel request form had still not been returned on the day of the Manager's departure. Miss Sandy LAU said that since she needed to obtain a copy of the approved form as supporting document for purchasing the air ticket for the Manager, she had reminded the Manager by e-mail on 3 May 2006 to fill in the travel request form and obtain the DED's approval. Ultimately, it should be the responsibility of the Manager to ensure that her trip was approved. Besides, since Miss Rita WONG indicated in her e-mail dated 15 May 2006 that the form was on the way to the GM CCPR, she had no idea that it was necessary to alert the GM CCPR.

168. The Committee further asked:

- (a) whether Miss Rita WONG had noticed that the former DED had written down in the travel request form her disapproval of the application before returning the form to the GM CCPR; and
- (b) whether there were any internal mail log book system and/or log books kept by the two secretaries concerned, recording the incoming and outgoing documents/correspondence for the relevant period in question.

169. The **DED of the HKTB** stated in her letter of 23 January 2008 that:

- (a) Miss Rita WONG could not recall whether and what comments the former DED had written down on the form. She was only instructed by the former DED to return the form to the GM CCPR; and
- (b) the HKTB did not have an internal mail log book system in place. Both Miss Rita WONG and Miss Sandy LAU replied that they did not maintain any log books for recording incoming and outgoing documents/correspondence for the former DED and the CCPR Division respectively.

170. The Committee asked what lessons had been learned from this case and how the HKTB could avoid recurrence of similar problem.

171. The **former DED of the HKTB** said that this was an isolated case. After this incident, she had issued an e-mail to remind staff members to obtain prior approval before commencement of business trip. The HKTB also held briefing sessions to remind staff members to follow the various rules and regulations.

172. The Committee asked for a copy of the said e-mail issued by the former DED. The **DED of the HKTB** said in her letter of 16 January 2008 that the HKTB could not locate an e-mail from the former DED to all staff on this subject. However, in the former DED's e-mail to Miss Cynthia LEUNG dated 12 June 2006, she had reminded Miss LEUNG to make sure that "all trips are approved prior to travel".

173. The **GM CCPR of the HKTB** admitted that she had not closely followed up the case with the Manager concerned before she commenced her trip. If she had taken one further step to ensure that approval from the DED had indeed been obtained, this case could have been avoided. If she knew that the case was not approved, she would definitely abide by the DED's decision and inform the Manager not to go on the trip. A lesson had been learned from this case and she would now ensure that staff concerned had obtained the approval from the relevant authority before commencement of a business trip. She had also reminded her staff time and again to follow the established procedures, not just for business travel, but also for other administrative matters.

174. The **ED of the HKTB** said that the HKTB had re-emphasised that staff members had to obtain approval from the relevant authority before flight reservation was confirmed. If no prior approval had been obtained, the staff concerned would not be able to claim reimbursement upon return from the trip. If a staff did not follow procedures intentionally, he would be warned or disciplined.

175. In connection with the above case in which the Manager concerned took vacation leave immediately after her business trip, the Committee enquired about the civil service policy on whether a civil servant might combine his overseas duty trip with his personal trip by taking vacation leave and lengthening the stay overseas, either before or after the duty trip. The Committee also asked whether the civil servant concerned was required to bear part of the travelling expenses for the trip if approval was given for him to combine the duty trip with personal trip.

176. In response to the Committee's enquiry, **Miss Denise YUE Chung-yee, Secretary for the Civil Service**, stated in her letter of 18 January 2008 in *Appendix 55* that:

- (a) air passages in connection with an overseas duty trip were arranged by the bureau or department concerned in accordance with relevant government regulations, rather than the officer himself; and

- (b) a civil servant who wished to modify the passage(s) of his official visit for personal reasons, say for spending his approved leave in the place of visit and deferring his return schedule, had to seek approval from his Head of Department. As stipulated under the Civil Service Regulations, such approval might only be given if the modification would not undermine the original justifications for the passage arranged. Further, any additional expenses resulting from the modification must be met by the officer, and any savings would not be used to subsidise the officer's personal travel. As such, where a civil servant was permitted to modify the passage(s) for his overseas duty trip for personal purposes and such modification resulted in a higher passage cost, the civil servant concerned was required to bear the additional expenses so incurred.

177. The **Chairman of the HKTB** said that the HKTB would review its policy on whether a staff member might combine his overseas duty trip with his personal trip by lengthening the stay overseas, and whether the staff member concerned was required to bear part of the travelling expenses for the trip.

178. According to paragraph 6.20 and Appendix G of Chapter 5 of the Audit Report, there were seven cases (Cases D1 to D7) in 2006-2007 in which air tickets had been purchased before approvals were obtained. The Committee requested the Director of Audit to provide further information regarding the respective dates of application for these business travel requests. The **Director of Audit** provided the information in his letter of 16 January 2008 in **Appendix 56**. He also stated that the HKTB needed to ensure that air tickets were purchased only after approvals were obtained.

179. The Committee noted that five of these cases were related to trips of the former ED, and queried why the former ED had not followed the due procedure of obtaining approvals before purchasing air tickets.

180. The **former ED of the HKTB** said that duty trips were usually attended by the Chairman of the HKTB if possible. If the Chairman could not attend, the ED had to stand by and attend on her behalf. Although air tickets were sometimes purchased in advance for expediency, all these cases were duty travel with valid business reasons, and had been approved by the Chairman.

181. According to paragraph 6.21 of Chapter 5 of the Audit Report, Head Office staff of GMs and above were entitled to travel by business class for short-haul flights as stipulated in the FPP. At a meeting of the Staff and Finance Committee held in July 2006,

a Committee member (the Commissioner for Tourism) pointed out that under the Government's practice, only officers on Directorate Pay Scale Point 4 (D4) and above were entitled to travel by business class. The HKTB's practice of allowing its GMs (whose salary was below D4) to travel by business class for short-haul flights was generous. The Committee asked why the HKTB adopted such a generous policy and did not follow the Government's practice.

182. The **former ED of the HKTB** said that after the reconstitution of the HKTA to the HKTB, the remuneration and benefits package of the HKTB had been delinked from those of the Government in order to attract more talents from the private sector. The HKTB had therefore commissioned a consultant to conduct a study in order to align its remuneration and benefits package with the market. The HKTB had also determined its own business travel policy having regard to the general market practice.

183. The Committee noted from paragraph 6.23(e) of Chapter 5 of the Audit Report that the HKTB was conducting a benchmarking study against comparable organisations regarding the arrangement for staff at the rank of GM or above to travel by business class for overseas duty visits, with a view to reissuing guidelines on business travel that would not be any more favourable than those adopted by comparable organisations. The Committee enquired about the details of this study, and the HKTB's revised guidelines having regard to the results of the benchmarking study.

184. The **DED of the HKTB** provided a summary of the results of the benchmarking study in her letter of 14 February 2008 in *Appendix 57* and said that:

- (a) the HKTB had benchmarked its existing policy with that of seven private companies, six quasi-government organisations and the Government;
- (b) based on the benchmarking study, the HKTB had revised its travel class entitlement policy, and the new policy was effective since 1 February 2008. Under the revised policy, the Chairman, ED and DED of the HKTB were entitled to travel by business class irrespective of the length of the flying time. However, they were encouraged to travel on economy class for short-haul flights where the flying time was less than four hours. For GM, Regional Director and Senior Manager, they were entitled to travel by business class if the flying time was more than nine hours; and
- (c) with prior approval from the ED, staff could apply for upgrade from economy class to business class under certain circumstances. No upgrading would be allowed if for the outward journey to duty place, the staff took leave outside Hong Kong before duty was performed or, if for the return

journey to Hong Kong, the staff took leave after performance of duty or upon arrival in Hong Kong.

185. In view of the lack of compliance with the policies and requirements stipulated in the FPP and other guidelines as reflected in the cases identified by Audit, the Committee asked how the HKTB could make improvement in this aspect. The **Chairman of the HKTB** said that the HKTB already had a set of established procedures and guidelines governing areas such as procurement, business entertainment and business travel. In response to the recommendations in the Audit Report, the senior management had reminded all staff that they must adhere to the proper procedures and guidelines when carrying out their work.

H. Planning of marketing activities

186. According to paragraph 1.10 of Chapter 6 of the Audit Report, the marketing activities of the HKTB for 2005-2006 and 2006-2007 covered several key functions, namely marketing research, strategic planning, consumer marketing and communications, tourism marketing, corporate communications and public relations, and destination marketing. To obtain a general overview of the HKTB's use of public fund in its marketing activities, the Committee requested the HKTB to provide a breakdown of the funding allocated to these respective functions in the said two years. The information provided by the HKTB is in *Appendix 58*.

187. The Committee noted from paragraph 2.5 of Chapter 6 of the Audit Report that before the Business Plan and Budget was finalised, the HKTB only held a Stakeholders Communication Session for the travel trade. No structured consultation forum was held to gauge the views of the other stakeholders of the tourism industry (e.g. the retail and catering sectors). Given that consultation was the key to successful marketing planning, the Committee asked why no structured forum had been organised and whether the views of other travel-related stakeholders had been ignored.

188. The **former Chairman of the HKTB** said that consultation and engagement with the travel and travel-related industry stakeholders had been an on-going process. Through the organisation of the two mega events in summer and winter, the HKTB maintained close contact with the tourism industry. The HKTB also operated a QTS Scheme to promote the importance of service excellence and encourage improvement in the standards of service among service providers, and had obtained useful feedbacks from different sectors of the industry through this Scheme. Although there was no formal consultation, views from different sectors had been collected through various channels.

189. The **former ED of the HKTB** supplemented that before implementing major programmes, such as mega events, the HKTB had sought input from both travel-trade and non-travel-trade partners, including merchant and trade associations. The HKTB had kept them updated of its marketing plans and promotional programmes. As a result, the HKTB had already taken into consideration views from different parties before finalising the Business Plan and Budget. Having said that, it would be a good practice to formalise the consultation and engagement process and have the feedbacks documented.

190. The **Commissioner for Tourism** said in her letter of 24 January 2008 that starting from 2007-2008, the HKTB had extended the consultation on its marketing plans and strategies to cover non-travel trade stakeholders, such as retail and catering industries, as well as academics. The feedback gathered would be reported regularly to the relevant committees of the Board.

191. The **DED of the HKTB** provided the following information in respect of Appendix D of Chapter 6 of the Audit Report, in *Appendices 59 and 60*, respectively:

- (a) a breakdown of the budgeted marketing expenditure in various markets for 2006-2007 by trade marketing, business development, consumer marketing and communications, promotional materials and distribution, and publicity programmes as well as the expenses on staff travelling; and
- (b) the HKTB's forecast of visitor arrivals in 2006 by various markets.

192. According to paragraphs 2.13 and 2.15 of Chapter 6 of the Audit Report, the average budgeted marketing expenditure per visitor of different markets varied significantly, ranging from \$3.2 for a Mainland visitor to \$45.4 for a visitor from Germany. However, the per capita spending in Hong Kong by overnight visitors from the Mainland and from Germany was about the same. The Committee asked:

- (a) why the budgeted marketing expenditure per visitor for Germany, which was only a secondary market, was much higher than that for the Mainland as a priority market;
- (b) about the criteria for selecting markets for investment in tourism promotion; and
- (c) whether the HKTB had actively explored other markets to replace those markets with a high marketing expenditure per visitor.

193. The **former ED of the HKTB** said that:

- (a) when allocating marketing budget, not only would the number of visitors from the markets be considered, other factors including the potential of the markets, the cost of doing business in the markets and the spread of the target segments within the markets were also essential. For the Mainland market, since over 80% of the IVS visitors came from Guangdong, which was rich in travel information, advertisements or promotions could easily reach them. The HKTB had also cooperated with the travel agencies in the Mainland to place advertisements on a cost-sharing basis, which had saved cost. On the other hand, Germany was a mature market and the cost of placing television commercials and print advertisements was high. The HKTB had leveraged on the annual large-scale international tourism exhibition held in Germany to promote Hong Kong's new tourist attractions and activities, not just to Germany but also to other countries joining this annual event;
- (b) Mainland tourists accounted for more than half of the total arrivals to Hong Kong. To avoid concentration risk and to uphold Hong Kong's international image as Asia's world city, resources had to be appropriately allocated to other markets. It would be important to maintain a balanced portfolio of visitors and thus a healthy growth in arrivals from different markets; and
- (c) to better tailor its marketing plans for different markets, the HKTB had categorised the markets into priority markets, primary markets, secondary markets and emerging markets based on their current contribution in the portfolio, future potential and strategic importance. The HKTB regularly monitored the changes in markets to ensure effective investment and marketing, and maximise return. However, in assessing the effectiveness of marketing campaigns and promotions, consideration had to be given to the fact that it took years to develop and build brand equity of a travel destination in an overseas country. This was evidenced by the significant increase in the number of visitors from Germany as compared with a few years ago. Moreover, under the "hub and spokes" model adopted by the WWOs, the marketing budget in Germany also included marketing expenditure in other German-speaking countries like the Netherlands. The HKTB had recently allocated more resources within this budget to promote tourism in the Netherlands in view of its strong outbound travel.

194. The **ED of the HKTB** added that the HKTB would focus on 19 source markets in 2008-2009, and adopt tailored strategies for each market. In particular, it would increase investment in new and emerging markets, namely Russia, India and the Middle East, which achieved robust performance in 2007.

195. The **Director of Audit** stated that given the rapid changes in market conditions, the HKTB should consider regularly reviewing the mix of arrivals from different markets, and set out the return on investment for various markets as an objective means for the allocation of marketing resources.

I. WWOs and Representative Offices

196. The Committee noted from paragraph 3.5(c) of Chapter 6 of the Audit Report that a Representative Office was set up in Italy, which was a non-key market, and no office was set up in the Middle East, despite its high growth rate in terms of visitor arrivals and per capita spending of visitors. The Committee enquired about the reasons for setting up a Representative Office in Italy, and whether the HKTB planned to set up any office in the Middle East.

197. The **former ED of the HKTB** said that the Representative Office in Italy was set up a long time ago as Italy was a market with good potential at that time. Besides, marketing activities for the Italian-speaking market could not be handled by the WWOs in France or Germany. Regarding the plan to set up an office in the Middle East, the **ED of the HKTB** stated that as the Middle East had achieved robust performance in recent years, the HKTB planned to set up a Representative Office there in the third or fourth quarter of 2008.

198. Despite the important marketing functions of the WWOs and Representative Offices, the Committee noted from paragraph 3.7 of Chapter 6 of the Audit Report that the HKTB had not laid down guidelines and criteria for establishing these offices. The Committee asked about the criteria adopted by the HKTB in determining the establishment of these offices, and whether the HKTB had regularly assessed the existing set-up to ensure that it was consistent with its strategic objectives.

199. The **former ED of the HKTB** responded that:

- (a) the HKTB constantly reviewed the establishment of its WWOs and Representative Offices so as to take into account the changing market conditions and tie in with its marketing strategies. For example, the Representative Offices in Turkey and Israel were closed down in April 2007 after review. That said, it would certainly be desirable if the guidelines and criteria in determining the establishment of these offices were clearly laid down; and

- (b) in deciding to set up or close down a WWO or Representative Office, the HKTB could not simply look at the number of visitors from the source markets. It had to carefully consider the impact on the relationship with the local tourism industry, the image of Hong Kong as a whole as well as long-term cost implications. The “hub and spokes” approach adopted by the HKTB whereby the WWOs would serve as a hub with many spokes penetrating into various markets allowed flexibility to accommodate changes in market conditions.

200. The **Commissioner for Tourism** said that the HKTB had completed an organisation review of the WWOs and submitted the main findings to the Board in January 2003. The review had mentioned the general conditions under which a Representative Office would be set up or upgraded to a WWO, but there might not be specific guidelines for establishing these offices. In fact, when determining the establishment of WWOs or Representative Offices, the HKTB took into consideration various factors and criteria, such as the outbound growth potential of the source markets, visitor arrival growth trend and local market environment (e.g. social, economic, political and air capacity). Although the HKTB reviewed the staffing requirements of the WWOs and Representative Offices in its annual business planning process, there was a lack of comprehensive review.

201. The **ED of the HKTB** said that as the last organisation review of the WWOs was completed in 2003, it was an opportune time to carry out a more comprehensive review on the distribution and staffing of WWOs and Representative Offices. The HKTB planned to conduct the review in April or May 2008.

202. According to paragraphs 3.18 and 3.19 of Chapter 6 of the Audit Report, the then Panel on Economic Services was informed in June 2005 that visitor information and service (VIS) centres would be set up in Beijing and Shanghai, which could serve a total of about “one million visitors” each year (i.e. 0.5 million visitors for each centre). However, it turned out that only 32,836 visitors were served by the Beijing VIS centre in 2006, a figure well below the 0.5 million target. From January to June 2007, only about 10,000 visitors were served. The Committee asked:

- (a) for a breakdown of the number of visitors served by the Beijing VIS centre in 2006 into the number of walk-in visitors, telephone enquiries and e-mail enquiries;
- (b) why there was such a huge discrepancy between the estimated and actual numbers of visitors;

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- (c) apart from servicing visitors, in what ways had the Beijing VIS centre contributed to the promotion of Hong Kong tourism to Mainlanders in Beijing and the surrounding areas; and
- (d) whether modifications would be made to the existing VIS centre in Beijing and the proposed VIS centre in Shanghai.

203. The **DED of the HKTB** provided, in her letter of 3 March 2008 in *Appendix 61*, a breakdown of the number of visitors served by the VIS centre in Beijing between 1 January to 31 December 2006 as follows:

Total number of visitors served	Walk-in visitors	Telephone enquiries	E-mail enquiries	Fax enquiries
32,836	22,088	10,407	332	9

204. On the discrepancy between the estimated and actual numbers of visitors served, the **former ED of the HKTB** explained that:

- (a) the China National Tourism Administration had on various occasions suggested that the HKTB should set up VIS centres in high traffic popular consumer districts to increase the awareness of Hong Kong as a travel destination and provide information on latest and upcoming activities in Hong Kong. The HKTB, having no previous experience in setting up centres as such, decided to set up VIS centres in Beijing and Shanghai as a trial;
- (b) as a matter of fact, the figure of one million visitors each year was meant for “capacity planning” instead of an estimation of the target number of visitors. Assuming 500,000 people visited a centre in 260 working days a year, the Beijing VIS centre would need to serve 1,923 people every day, which was unachievable in practice given the size of the centre. However, the centre also performed other functions such as telemarketing; and
- (c) the utilisation of the VIS centre in Beijing had dropped in the first half year of 2007 because the shopping centre where the centre was located was under renovation from January to March 2007. In April and May 2007, the centre was closed due to expiry of the tenancy agreement. The centre was reopened at another location in June 2007 with a smaller scale in view of the number of visitors served.

205. The **DED of the HKTB** said in her letter of 3 March 2008 that apart from servicing visitors, the Beijing VIS centre also promoted trade collaboration in Quality and Honest Tours. Various product knowledge training was provided since 2006 by the Beijing VIS centre information officers to the front-line agents in the Mainland serving the Quality and Honest Tour counters in Beijing, Dalian, Shenyang, Harbin, Shanghai, Hangzhou and Nanjing. This indirectly helped promote and facilitate Quality and Honest Tour product sales (see *Appendix 61* for the sales performance). Further, the lease of the Beijing VIS centre brought about free outdoor advertising space (right outside the centre). Outdoor media value in the same commercial district cost around RMB600,000 per year.

206. The **ED of the HKTB** added that the size of the Beijing VIS centre had been reduced from 21 square metres to nine square metres following its relocation in June 2007. The location of the new centre also enjoyed higher people flow. The set up of a VIS centre in the capital city of the Mainland was of strategic importance. As to the proposed VIS centre in Shanghai, the plan had been shelved, but the HKTB would continue to monitor the market development and revisit such need as and when appropriate.

207. In view of the former ED's explanation on the small number of visitors served by the VIS centre in Beijing, and the fact that the figure of "one million visitors a year" was presented as a "target" in the LegCo paper (LC Paper No. CB(1)1647/04-05(03)) submitted to the then Panel on Economic Services by the then EDLB, the Committee asked whether the then EDLB had misled the LegCo by presenting an unrealistic "target" in the paper which, among others, formed part of the information provided to the LegCo in explaining the use of the additional funding for the HKTB.

208. The **Secretary for Commerce and Economic Development** replied in his letter of 18 March 2008, in *Appendix 22*, that:

- (a) the paper submitted by the then EDLB referred to, inter alia, the HKTB's estimate that the two VIS centres in Beijing and Shanghai could serve about one million visitors each year. Such information was in fact provided by the HKTB to its Staff and Finance Committee and its Board for approval of the proposed establishment of two VIS centres; and
- (b) as the proposed VIS centres would be located in large-scale shopping malls/districts in city centres, the HKTB estimated that the people flow at these locations could reach 50,000 to 80,000 per day. From this the HKTB estimated that there might be about 1,500 visits to the proposed VIS centres per day. The Board accepted the estimation, amongst other considerations, and approved the establishment of the proposed centres. It was based on this estimate that the HKTB arrived at a projected target of one million

visitors to be served by the two centres. There was therefore no question of intentionally misleading the LegCo on the part of the HKTB or the then EDLB.

J. Execution and evaluation of mega events

Evaluation of mega events

209. According to paragraphs 4.15, 4.23 and 4.35 of Chapter 6 of the Audit Report, the HKTB had set performance targets for the three mega events, namely, the Hong Kong Shopping Festival, Hong Kong WinterFest and International Chinese New Year Night Parade (Parade). The results of the tracking surveys to evaluate the effectiveness of these events revealed that the HKTB could not meet some of the targets. In particular, for the 2006 WinterFest, the HKTB failed to meet four of the five performance targets. The actual visitor attendance had dropped by 42% as compared to 2005. For the 2007 Parade, the HKTB did not meet two of the five targets. The actual overall event satisfaction level dropped from 7.9 points in 2006 to 7.3 points in 2007. The Committee enquired about the reasons for not meeting these targets, and the measures that had been taken to improve the events in future.

210. In response to the Committee's questions, the **former ED of the HKTB** said that:

- (a) the relocation of the Star Ferry Pier had affected the visitor arrivals, attendance and satisfaction of the 2006 WinterFest. The HKTB had scaled down the event and set a lower visitor attendance target in anticipation of the impact of the relocation. However, other findings of the survey in Table 6 of Chapter 6 of the Audit Report showed that compared to 2005, the impact on extending the length of stay in Hong Kong increased from 8% to 10%, the awareness of the event before coming to Hong Kong surged from 21% to 39%, impact on decision to visit Hong Kong rose from 24% to 36%, and the intention of visiting Hong Kong for vacation in the future increased from 83% to 97%; and
- (b) for the 2007 Parade, the drop in the satisfaction level was mainly due to a fire alarm in a building located at the beginning of the Parade route, which led to a significant delay in the procession.

211. The **Chairman** and the **ED of the HKTB** said that:

- (a) the number of audience who attended the 2008 Parade was only 65,000, far below the expected target of 200,000. The decrease was due to the change

of the Parade route and the extremely cold weather. On the other hand, the number of television viewers had increased by 100,000; and

- (b) mega events played an important role in enhancing the overall destination appeal and brand equity of Hong Kong. The HKTB had constantly reviewed the effectiveness of these events. For example, the HKTB had modified the 2007 WinterFest by adding more street performances in various districts to enhance the festive atmosphere and introducing the New Year Countdown to replace the traditional set up of a Christmas tree and the Santa's Town. This new event format was decided after consultation with the trade partners.

212. The Committee noted from Note 18 and Table 4 in paragraph 4.3 of Chapter 6 of the Audit Report that the expenditure for the 2004 Parade was \$16.5 million, whereas that for the 2007 Parade, fully supported by additional funding from the Administration, had increased to \$21.4 million. In view of the significant amount involved in staging the Parade, the Committee requested the HKTB to provide a breakdown of the total expenditures for the Parades held in 2004, 2007 and 2008, and asked whether the surge in expenditure for the 2007 Parade supported the public perception of the HKTB being a spendthrift, given that the effectiveness of the Parade was doubtful (see Table 7 of Chapter 6 of the Audit Report).

213. The **DED of the HKTB** provided the expenditures and incomes for the Parades in her letter of 3 March 2008 in *Appendix 61*, as follows:

	Financial Year (FY) 2003/2004 Actual (HK\$ million)	FY 2006-2007 Actual (HK\$ million)	FY 2007-2008 Budget (HK\$ million)	FY2007-2008 Actual** (HK\$ million)
Event staging and local publicity	16.5	21.4	21.0	18.6
Overseas promotions*	5.5	7.9	6.0	6.0
Income	(4.4)	(5.1)	(6.0)	(6.1)
Total expenditure	17.6	24.2	21.0	18.5

Remarks:

* *For the entire Chinese New Year celebration period, including the Parade and other activities.*

** *Budget originally agreed in October 2007 but implemented a series of cost savings measures to reduce event staging cost.*

214. The **former Chairman of the HKTB** said that:

- (a) the HKTB was absolutely not a spendthrift. The expenditures on mega events were on par with other similar organisations such as the HKTDC for staging events of similar scale. The effectiveness of mega events had to be evaluated over a longer time span. For example, when the Parade was held some ten years ago, all the shops were closed during the Chinese New Year. As the staging of the Parade brought about a large number of visitors, coupled with the promotional efforts made by the HKTB, most of the shops were now open during this period. The media also globally broadcast and widely reported the Parade, generating huge publicity effect and enhancing the international image of Hong Kong. Another example was the Hong Kong Shopping Festival. The number of participating retail and dining merchant outlets had increased from the initial 2,000 outlets to the present 8,000 outlets. It had become an important summer event and an effective business platform. Other cities like the Singapore also held shopping festivals having noted the success of Hong Kong; and
- (b) the Board had reviewed the effectiveness of these events in depth and agreed that they were important not just as an annual event, but were crucial for enhancing the overall destination appeal and brand equity of Hong Kong. The money was definitely well-spent for these events.

215. The **Chairman of the HKTB** stated that the HKTB was currently reviewing its mega event strategy, including the feasibility of organising the events in different formats. The HKTB expected to produce a blueprint of the strategic direction by the end of 2007. The HKTB was also reviewing the setting of performance indicators for mega events. It would consult the academics and travel trade in order that the indicators could better reflect the effectiveness of the HKTB's work. The HKTB targeted to complete the review by 2008-2009.

Tender and contract arrangements

216. According to paragraph 4.17 of Chapter 6 of the Audit Report, the HKTB appointed an overseas contractor (Contractor X) to stage a show called "Aqua Fantasia" at Tsim Sha Tsui, as an anchor event to the 2006 Hong Kong Shopping Festival. Because Contractor X developed and owned the proprietary technology (Aqua Graphic Vision) for the show, the HKTB decided to invite a single tender and subsequently awarded a contract in the sum of \$3.45 million to Contractor X. The Committee asked about:

- (a) the justifications for adopting a single-tender arrangement for this case, and whether the HKTB had considered that there could be other companies in

the market which possessed different technologies for staging a multimedia water show; and

- (b) the general criteria for adopting a single-tender arrangement and whether endorsement by the Board or a relevant Committee was required.

217. The **former ED of the HKTB** said that the HKTB had presented several possible event options for consideration by the Product and Event Committee and it chose this show. As the proprietary technology and concept of the multimedia water show were owned by this company, a single-tender procedure had to be adopted. This show allowed video/slide show on water curtain, together with interactive fountains and water cannons. It was not a simple fountain show which could be staged by other companies.

218. The **DED of the HKTB** stated in her letter of 3 March 2008 that the technology (i.e. Aqua graphic®) used in the Aqua Fantasia show in 2006 was a patented technology. According to the HKTB's FPP on "Single Quote/Tender", invitation from one single supplier could be adopted under certain special circumstances, one of which being that "copyright/patent/proprietary products or services can only be supplied by a particular supplier and where no reasonable alternative or substitute exists". According to the Procurement Guidelines, the ED's approval limit was up to \$5 million. As the procurement amount for Aqua Fantasia was estimated to be \$4 million, approval by the Board/Committee was not required. The proposal to stage the Aqua Fantasia show had been presented to the Product and Event Committee meeting held on 7 March 2006.

219. Paragraphs 4.18 and 4.19 of Chapter 6 of the Audit Report further revealed that the HKTB paid a business class ticket (\$34,000) and hotel charges (\$15,000) for the Artistic Director of Contractor X, notwithstanding that there were no contract provisions requiring the HKTB to bear such expenses. Neither had prior approval been obtained from the ED or the DED for making these payments which were outside the contract requirement. In fact, the DED was not aware of such arrangement until Audit's enquiry in May 2007, i.e. a year later. The Committee questioned why some HKTB staff, time and again, did not obtain prior approval for making payments outside the contract requirement.

220. The **former DED of the HKTB** said that given that only three economy class tickets were paid for three technicians (instead of four as stated in the contract) who flew to Hong Kong to prepare the show, the GM concerned might have decided to pay for the Artistic Director to facilitate the discussion of the planning and execution of Aqua Fantasia. Since the amount of payments was within the approval limit of the GM, the GM concerned had not obtained approval from her or the ED.

221. The **ED of the HKTB** remarked that the HKTB would ensure that all charges for work items to be performed by contractors would be clearly laid down in the agreement with the contractor concerned, and that prior approval from the appropriate authority would be sought on any change to the scope of a contract.

222. According to paragraph 4.20 of Chapter 6 of the Audit Report, the HKTB had organised the WinterFest since 2002. The Committee noted from the tender documents for the WinterFest provided by the HKTB since 2002 that the HKTB conducted annual tendering exercises for the provision of a Christmas tree, a Snowy Chapel and a Santa's Town, etc, and different contractors had been engaged for the same item (e.g. the provision of a Christmas tree). Since a Christmas tree was erected every year, the Committee asked whether the HKTB had considered offering a contract covering a number of years for the Christmas tree so that some parts of the tree, such as the metal frame which constituted a high proportion of the cost, could be re-used to achieve cost-savings.

223. The **former DED of the HKTB** responded that the Product and Event Committee reviewed the design of the Christmas tree every year. There had always been varied views on the design. The HKTB had also discussed with the contractors the possibility of re-using the Christmas tree. However, the conclusion was that if some parts of the tree had to be dismantled and properly stored for use in the coming year, the cost might be even higher. Also, using a similar design every year might not be desirable due to diminishing novelty effect.

Sponsorship

224. According to paragraphs 4.28 and 4.29 of Chapter 6 of the Audit Report, a company (Company X) had been the title sponsor for the Parade since 1999. The then HKTA and the HKTB had renewed the sponsorship agreements with Company X seven times over the past eight years without inviting other parties to bid for the title sponsorship. The HKTB explained that as a mutual understanding, Company X would be given a right of first refusal for the continuation of sponsorship. Company X was therefore approached first to discuss sponsorship renewal before opening up the opportunity to other commercial sponsors. However, Audit noted that the mutual understanding was not specified in the sponsorship agreements. Having examined the sponsorship agreements with Company X since 1999, the Committee asked:

- (a) given that the sponsorship agreements had not provided for the mutual understanding of giving the right of first refusal to Company X, when and how such mutual understanding was reached;

- (b) whether approval of the Board was required for entering into sponsorship agreements; and
- (c) whether the HKTB had forgone the opportunities of soliciting more sponsorship from other parties for the Parade in the past eight years on the basis of a mutual understanding which was not recorded or reflected in any documentation.

225. The **former ED of the HKTB** said that:

- (a) she was not sure how the mutual understanding was reached. She was informed by somebody of such agreement after she joined the HKTB. When she approved the sponsorship agreement with Company X for two years in 2006 and 2007, she was aware of the mutual understanding of giving the right of first refusal to Company X for the continuation of sponsorship. It was also within her authority as the ED to approve the sponsorship agreement without having to seek further approval from the Board;
- (b) being the title sponsor for the Parade since 1999, Company X had maintained a good partnership with the HKTB. It would not be desirable to openly invite bids for title sponsorship. Also, by featuring its name and logo in the Parade over the years, the Company had built up its image as the title sponsor. It would be practically difficult to secure a new sponsor. However, she had asked the then GM DM to verbally enquire with other companies to see if they were interested in being the title sponsor. There was no record documenting details of the enquiry; and
- (c) under the sponsorship agreement, the HKTB would purchase air tickets from Company X, which helped ensure that air tickets were available for transporting the overseas performers to Hong Kong during the Chinese New Year.

226. In the light of the former ED's reply, the Committee:

- (a) requested the HKTB to check with the staff member responsible for negotiating with Company X the first sponsorship agreement for the 1999 Parade to ascertain if the mutual understanding was reached at that time;
- (b) requested the HKTB to check whether there was any written record of the verbal enquiry of the former GM DM regarding the title sponsorship; and

- (c) queried why the HKTB had approached other companies for title sponsorship in the past, if there was a mutual understanding with Company X that it would be given the right of first refusal for the continuation of sponsorship.

227. The **DED of the HKTB** said in her respective letters of 3 March 2008 and 10 March 2008 (in *Appendix 62*) that:

- (a) the staff member responsible for negotiating the title sponsorship for the 1999 Parade was the then Senior Manager, Events and Tours Department, and currently GM, Tourism Marketing. He could not recall further details about the right of first refusal;
- (b) as shown in an e-mail sent by the former GM DM, to the former ED in November 2004, the GM DM did enquire with other companies, including the Standard Chartered Bank, American International Group and China Union Pay, to see if they were interested in providing title sponsorship for the 2005 Parade. Apart from this e-mail, the HKTB could not locate other records showing that other companies had been approached. However, there were records of the companies approached by the HKTB in soliciting interest on title sponsorship for 1999 and float sponsorship for 1999 and 2007; and
- (c) the HKTA/HKTB had approached other companies for potential interest of sponsoring the Parade as a contingency plan in case agreement with Company X for sponsoring the Parade in the relevant year(s) could not be reached ultimately.

228. Paragraph 4.30 of Chapter 6 of the Audit Report stated that the Commissioner for Tourism commented at a meeting of the Marketing and Business Development Committee held in November 2006 that the HKTB should solicit more sponsorship for mega events. The Committee asked why she made such comment, and whether she was aware of the mutual understanding on the right of first refusal when she made the comment.

229. The **Commissioner for Tourism** said that she was not aware of the right of first refusal at that time. She only presented a general observation that it would not be a healthy development for the HKTB in the long run if the majority of the funding for mega events came from public money. Commercial sponsorship would enhance the vitality of these events and help renew the event format. She considered that from its experience in organising mega events over the past few years, the HKTB should conduct a more comprehensive review of the strategy, format, cost and sponsorship of mega events, with a view to identifying a more cost-effective way of organising and promoting such events.

230. In the above connection, the Committee asked whether new sponsorship had been sought for the 2008 Parade. The **ED of the HKTB** said that American Express had joined the Parade as the parade route sponsor. The HKTB would proactively solicit more sponsorship for mega events in future.

231. As the former ED mentioned earlier that it was within her authority as the ED to approve the sponsorship agreement without seeking approval from the Board, the Committee asked whether, according to the HKTB's guidelines, the former ED was authorised or had the authority to approve the 2006 and 2007 Parade sponsorship agreement, including giving a right of first refusal to the Company for continuation of sponsorship.

232. The **DED of the HKTB** stated in her letters of 3 and 10 March 2008 that the HKTB had been following the approval limit under the existing Procurement Guidelines for entering into sponsorship agreements. As the 2006 and 2007 sponsorship agreement signed with Company X was \$3.8 million for each Parade, it was within the ED's approval limit of \$5 million, although the agreement covered a two-year period with a total amount of \$7.6 million.

233. The **former Chairman of the HKTB**, in her letter of 3 March 2008 in *Appendix 63*, also confirmed that the ED did have the authority to negotiate agreements pertaining to events which had been endorsed by the Products and Events Committee for inclusion in the annual business plan. Details of the execution of the matters within the plan were left to the management. As far as she could recollect, neither the committees nor the Board were involved in any negotiation of agreements relating to operation.

234. The Committee noted from the DED's reply above that the HKTB had applied the approval limit for procurement to sponsorship agreements. However, it appeared to the Committee that the approval limit for procurement should not have been applied to sponsorship agreements because procurement and sponsorship were different in nature. The Committee therefore asked the current Chairman of the HKTB for his views on the approval authority in the HKTB for entering into sponsorship agreements.

235. The **Chairman of the HKTB** stated in his letter of 10 March 2008 in *Appendix 64* that the HKTB management had all along been following the approval limit under the existing Procurement Guidelines for entering into sponsorship agreements. As Chairman of the HKTB, he considered that there was a need for specific guidelines on the signing of sponsorship agreements. In particular, agreements that involved substantial amount of money and spanned across more than one year should be submitted to the Board for consideration. He had therefore instructed the HKTB management to develop a set of

guidelines on the authority to enter into sponsorship agreements for approval by the Board or a relevant committee of the Board as appropriate.

K. Conclusions and recommendations

236. Having conducted an examination of the issues identified in the Director of Audit's Report (Audit Report) and further revealed at the public hearings, the Committee finds that there was a lack of good corporate governance and good management in the Hong Kong Tourism Board (HKTB). The Committee also finds that there were problems and deficiencies in the HKTB's planning, execution and evaluation of marketing activities.

237. The Committee considers that the Board of the HKTB, the Administration, and the top management of the HKTB had all played a part in the multifarious problems and irregularities in the governance and management of the HKTB, and that the problems and irregularities are negative examples for all who have the responsibility to use public funds and, in particular, publicly-funded statutory organisations similar to the HKTB.

238. The Committee had extensive discussion on the causes and reasons of the problems and irregularities as well as the extent to which the Board, the Administration and the top management should be held responsible. The Committee is of the view that the Board and the top management should be condemned for the lack of good corporate governance and good management in the HKTB. The Committee is also seriously concerned and finds it unacceptable that the Administration had failed to play its role effectively over the governance, in particular funding control, of the HKTB. The Committee's views on the responsibilities of the various parties concerned having regard to their respective roles and involvement, and the Committee's findings and observations are set out in the ensuing paragraphs.

Corporate governance

Lack of good corporate governance

239. The following were problems and irregularities found in the corporate governance of the HKTB:

- (a) for the years between 2002-2003 and 2007-2008 (except 2003-2004), the HKTB committed expenses before its Business Plans and Budgets were approved by the Administration in accordance with section 17B(1) of the HKTB Ordinance;

- (b) a member of the Board of the HKTb failed to submit his declaration of interest forms between 2001-2002 and 2006-2007. Two other Board members also failed to do so for 2003-2004;
- (c) the attendance of some Board members at Board/Committee meetings was unacceptably low;
- (d) the amount of performance-based variable payments was determined on the basis of self-assessment report prepared by the respective HKTb senior staff without reference to any pre-determined objective criteria. Such mode of determination is open to criticism of being arbitrary, unfair, and susceptible to abuse and favouritism as borne out by the fact that between 2004-2005 and 2006-2007, some senior staff were awarded the full payment despite the fact that they had failed to meet a number of the reported targets or key performance indicators (KPIs);
- (e) formalised rules and procedures were lacking in certain areas which are crucial for underpinning a good corporate governance model. For example:
 - (i) it was only after over six years of the HKTb's establishment (i.e. on 1 April 2001) that the information manual for Board members which set out the proceedings of Board meetings (including the quorum of Board meetings) was approved by the Board (i.e. in September 2007);
 - (ii) practices applied in recruitment and appointment matters had not been approved by the Staff and Finance Committee until 2005, four years after the HKTb's establishment; and
 - (iii) specific guidelines on the authority to enter into sponsorship agreements had not been formulated by the HKTb management for approval by the Board, as revealed in the case concerning renewals of title sponsorship agreements with Company X mentioned in paragraph 239(i) below. In the absence of such guidelines, the HKTb management applied the approval limit for procurement to sponsorship agreements, notwithstanding the difference in nature between procurement and sponsorship. In entering into sponsorship agreements without the Board's approval, the HKTb management is open to criticism of accepting sponsorship without proper authority;
- (f) the staff recruitment procedure of the HKTb was fraught with deficiencies and loopholes, and its level of openness, fairness and justice fell far below the standard expected of a publicly-funded statutory organisation. For example:

- (i) in some cases, information about the number of applicants and candidates shortlisted for interview, and the shortlisting criteria were not documented; and
 - (ii) in the recruitment of the former General Manager, Strategic Planning and Marketing (GM SPM) in April 2001, the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee decided to appoint the person referred by the former Executive Director (ED) without going through an open recruitment procedure. There was also no record documenting details of the recruitment process or the interviewers' assessment. Marred by these failings, the recruitment process is subject to criticism of not being open nor fair;
- (g) there was a lack of compliance with the policies and requirements stipulated in the HKTB's Financial Policies and Procedures (FPP) and other guidelines, in the areas of procurement, entertainment expenses and business travel expenses, as demonstrated by the following:
- (i) prior approval had not been obtained from the appropriate authority for contract variation (see paragraph 279(b)(i) below for details);
 - (ii) prior approval had not been obtained from the former ED or the former Deputy Executive Director (DED) for making payments, totalling \$49,000, outside the contract requirement regarding the Aqua Fantasia multimedia water show for the 2006 Hong Kong Shopping Festival;
 - (iii) entertainment expenses incurred in certain cases identified had exceeded the cost-per-head spending limits; and
 - (iv) prior approval had not been obtained before a staff commenced business travel in certain cases identified. In one case, the Manager concerned and other staff involved failed to ascertain whether the business travel request had actually been approved by the former DED before the Manager commenced the trip, despite the fact that the processed travel request form had not been received even on the day of the Manager's departure from Hong Kong. It was not until the Manager had returned from the trip that it was realised that the former DED had in fact rejected the travel request. This case reflected the failure of the staff concerned to exercise due caution to comply with the requirement for prior approval for business travel;
- (h) the office administration system of the HKTB was chaotic, and fraught with deficiencies and loopholes, as could be reflected by the following examples:

- (i) no system had been put in place to ensure that appropriate and timely actions were taken in respect of important documents, such as the former ED's second employment contract. As a result:
 - it was not until November 2004 that the HKTB became aware that the former ED had not signed her second employment contract, which was print-dated 2 April 2004. The HKTB only had record which showed that the contract was not signed as of February 2005, but not any record which could show the date of the former ED's actual signing of the contract. The payment of salary to the former ED in the absence of a duly signed employment contract reflects inadequacies in the accounting process and is open to criticism of incurring expenditure without a proper basis; and
 - a copy of the contract was, by omission, not sent by the former DED to any of the copy addressees listed on the contract until April 2006; and
- (ii) in relation to the case in which a Manager had commenced business travel before obtaining approval, the business travel request form on which the former DED's rejection was marked had disappeared; and
- (i) for eight years since 1999, the Hong Kong Tourist Association/HKTB had not doubted the appropriateness of giving Company X the right of first refusal for the title sponsorship in respect of the International Chinese New Year Parade (Parade) on the basis of a mutual understanding, which was not reflected or recorded in the sponsorship agreements or any other documentation. The problem only came to light when questioned by the Audit Commission (Audit) in 2007. As such, no invitation had been extended to anybody other than Company X in the past eight years to bid for title sponsorship for the Parade, resulting in renewals of the title sponsorship agreements with Company X over the entire period.

Responsibilities for the lack of good corporate governance

240. The Committee considers that the Board of the HKTB, the Administration and the top management of the HKTB should all be held responsible for the lack of good corporate governance in the HKTB as set out below.

The Board of the HKTB

241. The Board, as the governing body of the HKTB, should have the responsibility of monitoring the performance of the HKTB management and, in that context, to demand from the management a high standard of corporate governance. In this regard, the Committee is astonished and considers it unacceptable that the Board had failed to detect the problems and irregularities in the HKTB's governance and management, and to set a good example in upholding the principles of good corporate governance for the HKTB management to follow.

242. Regarding recruitment of the former GM SPM in April 2001, both the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee considered the person referred by the former ED well-qualified for the post after they had interviewed her. As they wanted to fill the post with an appropriate person as soon as possible, they did not bother about the relevant procedural aspects. The Committee considers that the openness and fairness of the recruitment process must not be compromised although, as perceived by them, there was urgency in filling the post and the single applicant was suitable. The present case is particularly so as the applicant was referred by the former ED. If an open recruitment had been conducted, the HKTB would have had the benefit of considering other qualified candidates in the market.

243. The former Chairman of the Staff and Finance Committee also said that although it might be better if they had gone through an open recruitment procedure by advertising the post or engaging a head-hunting firm to search for candidates, they would have chosen the same candidate as the performance of the former GM SPM in the HKTB showed that she was a talent. The Committee is surprised at such a statement and considers it unacceptable for any person who holds an important position over the staffing and finance matters of a publicly-funded organisation to have such a mindset of disregarding proper procedure and due process, which are important factors in good corporate governance.

The Administration

244. The Committee is of the view that the Administration should be held responsible for the lack of good corporate governance in the HKTB due to its failure to put in place a mechanism to ensure that the Controlling Officer for the subvention to the HKTB effectively performed her roles and responsibilities.

245. According to the Public Finance Ordinance, Controlling Officers are responsible and accountable for the proper use of public funds under their control. However, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and

Tourism) (PSCIT), who is the Controlling Officer for the HKTB, was not appointed to the Board. The Commissioner for Tourism, who was appointed to the Board, did not have the responsibilities or the power of the Controlling Officer. The implication of this arrangement was that the Controlling Officer might not have first hand knowledge of the operations of the HKTB.

246. The Committee notes that Financial Circular No. 9/2004 sets out the measures that Controlling Officers may use to perform their funding control responsibility for subvented organisations. However, the Committee is seriously concerned and finds it unacceptable that:

- (a) the various identified problems and irregularities in the HKTB reflected that the above measures, even if adopted, were inadequate for ensuring that the HKTB used public funds with due regard to economy, efficiency and effectiveness; and
- (b) the fact that the Financial Secretary (FS) exercised his delegated authority to approve the remuneration and other terms of appointment for the former ED in 2001 and 2004 even in the absence of a copy of the ED's employment contracts clearly demonstrated that the relevant Controlling Officer had failed to perform her responsibilities in ensuring that the Administration went through due process in exercising the authority to appoint the ED (see paragraph 270 below for details).

247. In addition, the Committee is seriously concerned that the Administration had failed to specify the intended roles and responsibilities of the Commissioner for Tourism in appointing her as a member of the Board. Her roles, status and responsibilities were the same as all other Board members.

248. It is the Committee's view that the Commissioner for Tourism, as the designated government representative on the Board, the Deputy Chairman of the Board and a member of all the four committees under the Board, should have a unique role. Specifically, she should assume a monitoring role to ensure good corporate governance and proper utilisation of public funds allocated to the HKTB. In making this comment, the Committee has had regard to the fact that the Commissioner for Tourism is the link between the Board and the Administration, that both the SCED and the PSCIT would take into account the Commissioner for Tourism's views in exercising their statutory powers, and that the Tourism Commission is one of the few government departments which have designated responsibilities for the work of a publicly-funded statutory organisation such as the HKTB.

249. The Committee is also seriously concerned that the problems and irregularities in the corporate governance and management of the HKTB reflected that the successive Commissioners for Tourism had not performed their monitoring roles effectively. In particular, the Commissioners failed to detect that the commitment of expenses by the HKTB prior to the Administration's approval of its Business Plans and Budgets was an irregularity and failed to take early action to rectify it.

250. In the Committee's view, as the Commissioner for Tourism is the link between the Board and the Administration, she should have ensured that only persons who are committed to the work of the HKTB are appointed to the Board by the Administration. However, a member who only attended nine of the 31 (29%) Board meetings between 2002-2003 and 2006-2007 and was absent continuously from all 15 Staff and Finance Committee meetings between 2005-2006 and 2006-2007 was still reappointed a member of the Board twice in November 2005 and November 2006. In this regard, the respective Commissioners for Tourism had failed to discharge their responsibilities in ensuring that persons appointed as members of the Board were committed and had the time to make contributions.

Top management of the HKTB

251. The top management of the HKTB should be held directly responsible for the deficiencies in corporate governance and the irregularities found in the management of HKTB. It had failed to ensure that the HKTB adopted high standards of corporate governance, effective operations, compliance and administration. It had also failed to put in place systems and mechanisms that facilitated the achievement of such standards.

252. In particular, the Committee condemns the former ED as she had failed in her duties as the HKTB's chief executive officer. The Committee is also gravely dismayed that her level of prudence and extent of knowledge in the management of a subvented organisation in the public sector fell far short of the standard expected of an administrative head of a publicly-funded statutory organisation. Specifically, she failed to demonstrate that she possessed adequate knowledge of or put emphasis on the relevant statutory requirements and proper procedures for subvented organisations. Some examples would be:

- (a) on the question of why she had referred her former colleague for the post of GM SPM without advising the Chairman of the HKTB and the Chairman of the Staff and Finance Committee to go through an open recruitment process, the former ED claimed that as she was new to the HKTB at that time, she was not clear about the HKTB's recruitment procedure. However, she did not take the initiative to look into the situation but just relied on other colleagues to offer advice if they considered there were any problems;

- (b) on the executive medical plan, which is discussed in paragraphs 260 to 274 below, the former ED claimed that it had not occurred to her that the FS's approval was required, and remarked that it was not her responsibility to seek the FS's approval. She even had not signed her employment contract almost a year after it had been offered to her and long after its stated commencement date. Such neglect of proper procedure on the part of the former ED even in handling her own employment contract raises serious doubts on her ability to properly manage the HKTB; and
- (c) on the title sponsorship for the Parade, the former ED claimed that she had asked the former General Manager, Destination Marketing (GM DM) to approach other companies to see if they were interested in being the title sponsor. She also claimed that as the GM DM only approached the companies verbally, there was no record documenting the details. The fact that the former ED had allowed the GM DM to solicit sponsorship verbally and without a clearly formulated target group suggests that she did not find it important to follow proper procedures.

253. The Committee is of the view that the former DED, being the deputy head of the HKTB and the Secretary to the Board, should have a special responsibility over the problems and deficiencies in the corporate governance of the HKTB. The Committee condemns the former DED in that:

- (a) she had failed in her responsibility, as stated in her job description, to ensure that all corporate activities and operations were carried out in compliance with the HKTB Ordinance, corporate governance, laws and regulations as well as best business practices. In the former DED's capacity as the head of operational support, she should be held directly responsible for the lack of internal control and for the chaotic management in the HKTB;
- (b) being the Secretary to the Board, she had failed to assist the Board to devise proper procedures for conducting Board business, as can be seen from the fact that she had not assisted the Board to formalise the information manual for Board members; and
- (c) she had failed to perform effectively her important "goalkeeper role" – a role that was intended to permit the former ED to focus on marketing programmes. In some instances, not only had the former DED failed to underpin the former ED in compliance matters, she had also failed to perform a check-and-balance function and to identify loopholes and irregularities in established practices.

Roles and responsibilities of the governing body, government representatives serving as members of the governing body, and the chief executive officer of a publicly-funded statutory organisation

254. This is the Committee's third report concerning the corporate governance and management issues of a publicly-funded statutory organisation in recent years. The first was the one on "Corporate governance and Headquarters administration of the English Schools Foundation (ESF)" (in the Committee's Report No. 43). The second was the one on "Administration of the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI)" (in the Committee's Report No. 48). In the ESF, ASTRI and HKTB, there are government officials sitting on the Foundation/Board (the governing body), yet various problems and irregularities in corporate governance and management had been identified. This reflects and the Committee is seriously concerned that the mere appointment of government officials to serve as members of the governing body of publicly-funded statutory organisations does not guarantee that there will be high standards of corporate governance and management in such organisations.

255. The Committee also finds that there is a lack of clear demarcation of the respective roles and responsibilities among the governing body, the government representatives serving as members of the governing body, and the chief executive officer of a publicly-funded statutory organisation, and considers this unacceptable. The Committee sees the merits of clearly stipulating their respective roles and responsibilities as these can serve to define their respective scopes of accountability and provide the basis for monitoring and evaluating their performance. In this regard, the Committee is disappointed that the Administration had not specifically studied this issue in its overall review of advisory and statutory bodies in the public sector, which was conducted in response to the Legislative Council (LegCo)'s recommendation in 2000.

256. The Committee has recommended, in the case of ASTRI, that the Administration should review the role and responsibility of the government officials appointed to sit on the governing bodies and committees of statutory bodies or publicly-funded organisations. The Administration has accepted our recommendation and is conducting a review. The outcome of the review will be reported to the Committee in the first half of 2008. The Chief Secretary for Administration's letter of 7 November 2007 informing the Committee of the scope of the review is in *Appendix 65*.

257. In view of the repeated occurrence of problems and irregularities related to corporate governance in publicly-funded statutory organisations, the Committee strongly urges the Chief Secretary for Administration to:

- (a) expedite the above review and, in the review:
 - (i) critically examine how the Administration can ensure that good corporate governance and management are put in place in publicly-funded statutory organisations; and
 - (ii) consider promulgating a clear stipulation of the respective roles and responsibilities of the governing body, the government representatives appointed to serve as members of the governing body, and the chief executive officer of a publicly-funded statutory organisation; and
- (b) report the outcome of the review to the Committee no later than June 2008.

258. In addition, the Committee strongly urges that the Administration should:

- (a) in the light of the Committee's findings and observations in paragraphs 244 to 250 above:
 - (i) review how it can ensure that Controlling Officers for publicly-funded statutory organisations effectively perform their roles and responsibilities, and consider taking measures such as designating government representatives sitting on governing bodies of the organisations to perform specified roles and responsibilities, and putting in place a standing mechanism for designated government representatives to report major matters or problems of the organisations to the responsible bureau secretaries and/or Controlling Officers; and
 - (ii) clearly state the intended roles and responsibilities of the government representatives sitting on the governing bodies of publicly-funded statutory organisations when appointing them;
- (b) take measures to ensure that the persons appointed as members of the governing bodies of publicly-funded statutory organisations are fully aware of their roles and responsibilities and to assist them in performing such roles and responsibilities effectively; and
- (c) in order that the chief executive officers of publicly-funded statutory organisations can effectively perform their roles and responsibilities, take measures to ensure that the chief executive officers have good understanding of the legislation, government rules, regulations and policies relevant to their organisations, the framework for the control and management of public finances, and proper procedures governing the use of public funds.

The Administration's and the HKTB's response to Audit's recommendations on corporate governance matters referred to in the Audit Report

259. The Committee notes that:

- (a) the SCED has appointed 28 February of each year for the HKTB to submit its Business Plan and Budget to him, with a view to completing the approval process by 1 April of each year;
- (b) the ED of the HKTB has undertaken to develop specific guidelines on the authority to enter into sponsorship agreements and submit them to the Board or a relevant committee of the Board for approval;
- (c) the ED of the HKTB has agreed with the audit recommendations in paragraphs 2.5, 2.17, 2.24, 2.30, 2.34, 2.38 and 2.44 of Chapter 5 of the Audit Report; and
- (d) the SCED has agreed with the audit recommendations in paragraphs 2.9, 2.16 and 2.25 of Chapter 5 of the Audit Report.

Executive medical plan for the former ED and her family

260. The Committee has considered in detail the terms and circumstances of the employment contract of the former ED in relation to the provision of an executive medical plan to her and her family. In this regard, the Committee observes the following irregularities:

- (a) the executive medical plan had not been approved by the FS, although according to the HKTB Ordinance, the remuneration and other terms of appointment of the ED shall be subject to the approval of the Chief Executive, who has delegated the authority to the FS; and
- (b) the benefits of the executive medical plan for the former ED were better than the benefits of the corporate medical plan specified in her employment contract. According to the contract, the ED was entitled to the medical and dental benefits as set out in the Employees' Handbook of the HKTB. The premium of the executive medical plan was \$177,404 for the two years from 22 September 2004 to 21 September 2006.

Responsibilities for the provision of the executive medical plan

261. The Committee considers that the former Chairman of the HKTB, the former ED, the former DED and the Administration all have responsibilities in the matter as set out below.

262. Although the former Chairman did not recall having agreed to the former ED's request for upgrading the latter's medical plan during their negotiation of contract renewal, the Committee notes that the evidence of the former Chairman of the Staff and Finance Committee was that there was agreement for the former ED to proceed to source for an executive medical plan. The evidence of the former ED was that she understood the agreement was to be that she could enjoy an executive medical plan which was different from the medical plan provided for in a standard employment contract of the HKTB. On the basis of the evidence taken, the Committee considers that the former Chairman could have given verbal agreement for the former ED to proceed to source for an executive medical plan only.

263. The Committee notes the claim of the former Chairman of the HKTB that she had been misled into approving the procurement of the executive medical plan as a result of the former DED's e-mail dated 2 September 2004, which stated that "I (the DED) understand that as part of the terms of Clara (the ED)'s contract renewal, she is entitled to enroll on an executive medical plan for herself and her family". However, being the party who negotiated with the former ED the terms of the latter's contract renewal and being a signatory to the contract, the former Chairman should have full knowledge of all the terms of the contract. When being asked to give approval to the procurement of the executive medical plan, the former Chairman should have raised query and taken action to verify if the plan was provided for in the contract. The fact that the former Chairman had not done so reflects that she had handled the matter in a cursory manner and to this, the Committee expresses regret. In the Committee's view, if the former Chairman had checked the contract, she should have realised that the executive medical plan was contrary to the express terms of the contract and many of the problems relating to the plan, including the payment of premium, could have been avoided.

264. The former ED, as the HKTB's chief executive officer, should be conversant with the requirements laid down in the HKTB Ordinance concerning the authority for approving her terms of appointment. She should have reminded the Chairman and responsible staff of the need to seek approval for the executive medical plan in accordance with the HKTB Ordinance and ensured that this had been done.

265. The former ED, being party to the employment contract, should know well the precise terms of the contract. By entering into a contract which did not provide for the benefit of an executive medical plan and yet continuing to enjoy that benefit, the former ED is open to criticism that she had given too much emphasis to her personal entitlements but had not given due regard to the legal requirements, to the express terms of contract as offered to her, and to the scope of the medical plan provided to all other employees of the HKTB at the material time.

266. In making the above comment, the Committee has not lost sight of the former ED's claim that as an employee, there was nothing wrong on her part in seeking to negotiate for better protection and a better remuneration package. The Committee does not dispute the right of any employee to negotiate for a good remuneration package, but considers that the crux of the matter is that the executive medical plan had not been approved in accordance with statutory requirements, and also is a contradiction to the express terms of the employment contract. The Committee finds it appalling and totally unacceptable that the former ED enjoyed a benefit to which she was not entitled.

267. The former DED, being the responsible staff who drafted the former ED's employment contract, should know well the precise terms of the contract. As the Secretary to the Board and the person overseeing compliance issues, she should be conversant with the requirements laid down in the HKTB Ordinance. Before seeking the former Chairman's approval for the executive medical plan, the former DED should have ascertained that approval had been obtained in accordance with the HKTB Ordinance. In view of the express terms of the contract and the absence of clear instructions from the Chairman, despite the former DED's claim that terms could have been varied due to an oral agreement between the former Chairman and former ED, the Committee does not accept that there was reasonable basis for the former DED to come to the conclusion that there had been a change in the contract terms after considering the evidence of other witnesses.

268. The Committee also notes that the former General Manager, Industry Training and Human Resources (GM ITHR) had pointed out to the former DED that the executive medical plan was a "super medical scheme", that enrolling the ED to such a plan was against the market practice, and that it was difficult to justify and could create credibility problem. The Committee considers that the GM ITHR's views should have raised sufficient alert for the former DED to treat it as a serious warning that should be brought to the attention of the Chairman, but the former DED had failed to act on the alert.

269. Being the person who drafted the second employment contract of the former ED and the Secretary to the Board, the former DED had the responsibility to assist the Board in ensuring that the contents and approval procedure of the employment contract complied

with statutory requirements. However, the former DED failed to seek the necessary clarification or confirmation from the former Chairman of HKTb or the Chairman of the Staff and Finance Committee about any change in terms, nor did she pay due regard to the alert raised by the GM ITHR. Instead, she only acted on the uncorroborated verbal information given by the former ED. In so doing, the former DED is open to criticism of having followed her superior's instruction without exercising independent judgment and paying attention to statutory requirements. In this regard, the Committee considers it inexcusable and condemns the former DED for the reason that she had failed to perform her duties in the manner expected of a person of her background, experience and seniority in the organisation, nor with sufficient care and diligence.

270. The Committee notes that the former ED's first employment contract dated 23 January 2001 contained some terms which were not included in the key terms of appointment and remuneration package as set out in the former Chairman's letter of 4 November 2000 and approved by the FS. The Administration also did not have a copy of the ED's draft employment contract before the FS's approval was given. In respect of the former ED's second contract, the Committee notes that once again the FS approved the reappointment of the former ED, as well as her remuneration package and terms of appointment on the basis of the former Chairman's letter of 4 March 2004, which only set out the key terms of appointment of the ED, and in the absence of a copy of the draft contract. The Committee considers that the then Controlling Officer for the HKTb and the then Commissioner for Tourism should have requested the HKTb to provide them with all the terms and conditions of employment of the ED before recommending the reappointment, remuneration and terms of appointment for the FS's approval. The Committee is disappointed that they had failed to do so on both occasions.

271. The Committee considers it inexplicable and unacceptable that, as revealed in the course of the public hearings, the former ED's second employment contract was not signed by her as of February 2005 even though it was print-dated 2 April 2004, and there was no record in the HKTb which could show the date of the former ED's actual signing of the contract. This omission only surfaced in November 2004 when the responsible staff initiated action on payment of leave passage to the former ED. It was also revealed that the former DED had omitted to send a copy of the contract to the copy addressees listed on it (i.e. the Permanent Secretary for Economic Development and Labour, the Commissioner for Tourism and the Chairman of the Staff and Finance Committee) until April 2006.

272. As the Committee has commented in paragraph 239(h)(i) above, in paying salary to the former ED in the absence of a duly signed employment contract, the HKTb is open to criticism of incurring expenditure without a proper basis, particularly when the amount of salary paid was greater than that specified in the former ED's first employment contract of

2001. The various omissions relating to the handling of the former ED's second employment contract also reflect badly on the administration of the HKTB.

Recovery of the difference in premium and other follow-up action

273. The Committee considers that the former ED was not entitled to the executive medical plan. Even if verbal agreement had been given by the former Chairman of the HKTB and the former Chairman of the Staff and Finance Committee for the former ED to source for a suitable executive medical plan, the fact remains that the plan was not provided for in the ED's contract, for it was clearly stated in the contract that "This contract contains the entire understanding between the parties and supercedes all previous agreements and arrangements (if any) relating to the matters described herein. The terms hereto cannot be modified, supplemented or rescinded except by writing signed by both parties". There was no evidence that the contract terms had been modified to provide for the executive medical plan.

274. In view of the express terms of the employment contract, the failure to follow proper procedures, and the absence of required approval by the FS, the Committee strongly urges the HKTB to actively consider whether it can recover the difference in premium between the executive medical plan and the medical and dental insurance plans specified in the Employees' Handbook, and report the result of its consideration to the Committee. In the light of the Committee's findings concerning the provision of the executive medical plan, the Committee also strongly urges the Administration to consider whether the matter should be referred to any law enforcement agency for follow-up action.

Performance measurement and reporting

275. The problems and irregularities of the HKTB in the area of performance measurement and reporting were as follows:

- (a) the four KPI groups set out in the HKTB's annual Business Plan and Budget were formulated to measure the tourism industry's performance only, and they could not provide a direct measure of the HKTB's performance in its marketing activities;
- (b) the HKTB did not set out performance measures (targets and indicators) in its annual reports during the years 2001-2002 to 2005-2006;
- (c) the then Economic Development and Labour Bureau only set out in its 2007-2008 Controlling Officer's Report indicators of Hong Kong tourism's performance rather than "targets" for measuring the HKTB's performance; and

- (d) the HKTB's annual reports for the years between 2001-2002 and 2005-2006 were tabled in the LegCo about one year after their year end dates (i.e. 160 to 217 days after the accounts had been certified by the auditor).

276. The Committee notes that:

- (a) the ED of the HKTB is exploring the possibility of advancing the schedule for the preparation and submission of the audited financial statements to the Board, so as to bring forward the tabling of the annual report in the LegCo after the end of each financial year;
- (b) the ED of the HKTB has agreed with the audit recommendations in paragraph 3.7 of Chapter 5 of the Audit Report; and
- (c) the SCED has agreed with the audit recommendations in paragraph 3.8 of Chapter 5 of the Audit Report.

Remuneration and recruitment

277. The Committee observes the following problems and irregularities in the area of remuneration and recruitment:

- (a) seven HKTB Head Office staff and two Worldwide Office (WWO) staff received a salary higher than the maximum of their respective salary ranges as at April 2007;
- (b) up to June 2007, the HKTB management had not sought the direction of the Board concerning the arrangement of converting the 13th month pay into a performance-based variable payment despite the fact that it had recommended to the Board that the arrangement should be introduced after 2005-2006;
- (c) a one-year break clause was included in the contracts of two GMs in 2006 despite the fact that no break clauses were included in another two GMs' contracts in 2007;
- (d) the targets and defined objectives for determining the award of the performance-based variable payments had not been agreed with the senior staff concerned, contrary to the conditions of their employment contracts. Instead, the performance indicators and the other objectives in the HKTB's annual Business Plan and Budget were considered as the agreed targets and defined objectives, and yet different criteria were still being used for

determining the award for different senior staff in 2004-2005 to 2006-2007, as follows:

- (i) the ED was awarded the full payment for 2004-2005 despite the fact that she did not meet three of the nine reported targets. Three GMs were also awarded the full payments for 2004-2005 despite the fact that one GM did not meet four of the eleven KPIs, one GM did not meet three of the six KPIs and the remaining GM did not meet two of the four KPIs;
 - (ii) one GM was awarded the full payment for 2005-2006 despite the fact that the GM did not meet one of the nine KPIs; and
 - (iii) three GMs were awarded the full payments for 2006-2007 despite the fact that one GM did not meet four of the nine KPIs, one GM did not meet two of the five KPIs and the remaining GM did not meet three of the five KPIs;
- (e) the review of payment of an acting allowance to staff had not been completed until September 2007 despite the fact that the subject was first brought up for review in September 2005;
- (f) four parking spaces were rented by the HKTb for the use of the DED and three GMs in 2006-2007 despite the fact that the provision of parking spaces was not stated in the Employees' Handbook of the HKTb and Head Office staff employment contracts;
- (g) of the 15 recruitment cases during the period March 2006 to June 2007 examined by Audit:
- (i) in one case, before the selected candidate reported for duty at the HKTb, this person interviewed a candidate of another recruitment exercise;
 - (ii) in 11 cases, only one HKTb staff member conducted the interviews (i.e. panel interviews not conducted);
 - (iii) in four cases, there was no record showing the number of applicants and the number of candidates shortlisted for interview; and
 - (iv) in 11 cases, the shortlisting criteria were not documented; and

- (h) of the five GM ITHR and one GM SPM recruited when the former ED was in position, except for the recruitment of one GM ITHR, the HKTB did not have the record of the number of applicants and/or the number of candidates shortlisted for interview.

278. The Committee notes that:

- (a) the principles for the proposed performance management system for senior staff, including the respective weighting for KPIs, Key Strategic Focuses and competency assessment, have been endorsed by the Staff and Finance Committee in January 2008, and the HKTB management will consult the staff concerned before seeking the Board's approval in March 2008; and
- (b) the ED of the HKTB has agreed with the audit recommendations in paragraphs 4.14, 4.18, 4.26, 4.40, 4.45, 4.49 and 4.56 of Chapter 5 of the Audit Report.

Procurement matters

279. The problems and irregularities of the HKTB in procurement were as follows:

- (a) the 60% to 80% weighting for technical score under the HKTB's FPP is much higher than the normal weighting of 30% to 40% for technical score under the Government's guidelines;
- (b) of the procurement records for 2005-2006 and 2006-2007 examined by Audit:
 - (i) in one case, after the HKTB had entered into a contract with a contractor, the responsible HKTB staff requested the contractor to carry out additional work without obtaining prior approval from the ED; and
 - (ii) in one case, the HKTB did not follow the best practice of requesting tenderers to submit separate technical details and price proposals as stated in the FPP; and
- (c) the HKTB requires only the obtaining of quotations/bids for procurements under the FPP while the Government's guidelines stipulate that, normally, open tendering has to be adopted for procurement with value of over \$1.3 million.

280. The Committee notes that the ED of the HKTB has agreed with the audit recommendations in paragraph 5.9 of Chapter 5 of the Audit Report.

Other administrative issues

281. The problems and irregularities of the HKTB in other administrative issues were as follows:

- (a) information about project-related entertainment expenses is not readily available;
- (b) four payments involved project-related entertainment expenses which had exceeded the cost-per-head spending limits stipulated in the FPP. The amount of excess for each payment ranged from about \$11,400 to \$60,300 (i.e. 29% to 170% in excess of the spending limits);
- (c) prior to October 2007, under certain circumstances, expenditure involving HKTB staff having a meal together could be reimbursed under entertainment expenses;
- (d) information about project-related travel expenses is not readily available;
- (e) there were three cases in 2006-2007 in which the staff concerned had commenced business travel before obtaining approval, violating the FPP requirement;
- (f) there were seven cases in 2006-2007 in which the air tickets had been purchased before approvals were obtained; and
- (g) the HKTB's practice of allowing its GMs to travel by business class for short-haul flights was more generous than the Government's practice.

282. The Committee notes that the ED of the HKTB has agreed with the audit recommendations in paragraphs 6.14 and 6.22 of Chapter 5 of the Audit Report.

Planning of marketing activities

283. The problems of the HKTB in the planning of marketing activities were as follows:

- (a) before the Business Plan and Budget was finalised, the HKTb only held a Stakeholders Communication Session for the travel trade. No structured consultation forum was held to gauge the views of the other stakeholders of the tourism industry (e.g. the retail and catering sectors);
- (b) the average budgeted marketing expenditure per visitor of different markets varied significantly and the budgeted marketing expenditures of some markets with lower priority were more than those of some markets with higher priority; and
- (c) the return on marketing expenditure for various markets was not set out in the annual Business Plan and Budget as an objective means for allocation of marketing resources.

284. The Committee notes that:

- (a) the HKTb's aim is to maintain a balanced portfolio of visitors and thus a healthy growth from all 16 key markets. The 2006 visitor arrivals from the five priority markets accounted for 75.1% of the total arrivals and the visitor arrivals from the other 11 key markets ranged from 2.3% to 0.8% of the total arrivals; and
- (b) the ED of the HKTb has agreed with the audit recommendation in paragraph 2.6 of Chapter 6 of the Audit Report.

WWOs and Representative Offices

285. The problems and deficiencies regarding the WWOs and Representative Offices were as follows:

- (a) guidelines and criteria for establishing the WWOs and Representative Offices had not been laid down;
- (b) despite the high growth rate of visitor arrivals from the Mainland since 2003 and the increased number of Individual Visit Scheme (IVS) cities, the staff establishments of the four WWOs in the Mainland had remained nearly the same;
- (c) no specific marketing strategies and programmes were laid down in the Business Plan for the 21 IVS cities not classified as high potential cities; and

- (d) according to the former ED, the “target” of “one million visitors a year” for the two proposed visitor information and service (VIS) centres in Beijing and Shanghai (i.e. 0.5 million visitors for each centre a year), as stated in the paper submitted by the then Economic Development and Labour Bureau (EDLB) to the then Panel on Economic Services in June 2005, was unachievable in practice, given the size of the Beijing VIS centre. As it transpired, the Beijing VIS centre served only about 33,000 visitors in 2006, a figure well below the 0.5 million “target”. Since the information based on which the “target” was arrived at was provided by the HKTB management to the Board for seeking the latter’s approval of the proposed establishment of the two VIS centres, the Committee considers that the former ED had misled the Board and, as a result, the then EDLB. This is totally unacceptable.

286. The Committee notes that:

- (a) the HKTB is committed to constantly reviewing the establishment of its WWOs and Representative Offices so as to take into account the changing market conditions and to tie in with its marketing strategies;
- (b) the HKTB closely monitors the development of the source markets and reviews the need to establish a WWO or Representative Office. Recommendations will be submitted to the Board for consideration and approval;
- (c) the HKTB has been conducting regular review of the staff resources of the WWOs in the Mainland, and will reallocate resources or adjust headcount, if justified;
- (d) the HKTB has been conducting regular reviews and tracking closely the market development in the Mainland, and will adjust its marketing strategies as is deemed necessary in the light of changes in the market potential of selected IVS and other Mainland cities; and
- (e) the ED of the HKTB has agreed with the audit recommendations in paragraph 3.20 of Chapter 6 of the Audit Report.

Execution and evaluation of mega events

287. The problems and irregularities of the HKTB in the execution and evaluation of mega events, apart from those mentioned in paragraphs 239(g)(ii) and 239(i) above, were as follows:

- (a) up to September 2007, the HKTB's review of the mega events for the purpose of advising the Government on the long-term issues relating to stable and consistent funding for staging mega events had not yet been finalised;
- (b) the performance targets for three mega events in 2006-2007 (i.e. the 2006 Hong Kong Shopping Festival, the 2006 Hong Kong WinterFest and the 2007 Parade) were not fully met;
- (c) the single-tender arrangement for the Aqua Fantasia multimedia water show might not be the most cost-effective as there could be other companies in the market which possessed different technologies for staging a multimedia water show at a competitive price;
- (d) the provision of the Christmas trees for the Hong Kong WinterFest by annual tendering exercises might not be the most cost-effective. Cost-savings may be achieved if the contract for providing a Christmas tree covers a number of years, e.g. the cost of the metal frame of the tree, which constitutes a high proportion of the cost, can be amortised over a number of years; and
- (e) no mechanism was put in place to evaluate whether the performance of overseas performing groups in the Parade is cost-justified.

288. The Committee notes that the ED of the HKTB has agreed with the audit recommendations in paragraph 4.37 of Chapter 6 of the Audit Report.

Execution and evaluation of other marketing activities

289. The problems and irregularities in the HKTB's execution and evaluation of other marketing activities were as follows:

- (a) the HKTB had not set targets before the launch of its worldwide promotion activities between 2005-2006 and 2006-2007 to evaluate the effectiveness of the activities in achieving their intended objectives;
- (b) the HKTB's contract arrangement for pyrotechnic displays might not be the most cost-effective arrangement as 12 individual contracts were awarded for staging the displays between 2004-2005 and 2006-2007;

- (c) in 2006-2007, the HKTB only recovered 60% of the total direct expenses incurred in arranging local travel trade operators to participate in trade shows and the direct cost not recovered amounted to \$1.7 million;
- (d) the HKTB management did not provide information to Board members on tour products developed as a result of the familiarisation visits despite the fact that it had agreed to do so consequent upon the Commissioner for Tourism's suggestion in March 2006;
- (e) up to August 2007, the review to evaluate the familiarisation visits organised in 2006 had not been completed;
- (f) regarding the contract for the school promotion campaign in the Mainland:
 - (i) there were no written agreements documenting the tenderers' agreement to the reduction of work and bid prices during the presentation of their tender proposals;
 - (ii) the five receipts provided by the contractor for claiming the participating organisation fees were self-certified by the individuals concerned without proper authentication and there was no information on whether the payments were received on behalf of any organisation; and
 - (iii) payment was made to the contractor before the signing of the contract;
- (g) the HKTB had collected information about the travel behaviour and personal profiles of just about 20% of the customers of its E-zine subscription database; and
- (h) the HKTB had not, in line with the best practices for National Tourism Organisations, undertaken conversion studies for evaluating its marketing activities.

290. The Committee notes that the ED of the HKTB has agreed with the audit recommendations in paragraphs 5.8, 5.13, 5.19, 5.26, 5.35(a) and (c), 5.40 and 5.45 of Chapter 6 of the Audit Report.

Quality Tourism Services Scheme

291. The problems of the HKTB in the operation of the Quality Tourism Services (QTS) Scheme were as follows:

- (a) the total number of complaints received against QTS merchants had increased by 33% and the quality of services was the major source of complaints between 2004 and 2006; and
- (b) the operating income could not cover the operating expenditure of the QTS Scheme. The shortfall in 2006-2007 was \$5.3 million and the estimated shortfall in 2007-2008 was \$5.9 million.

292. The Committee notes that the ED of the HKTB has agreed with the audit recommendations in paragraph 6.9 of Chapter 6 of the Audit Report.

Follow-up action

293. The Committee wishes to be kept informed of:

- (a) the outcome of the Administration's review of the role and responsibility of the government officials sitting on the governing bodies and committees of publicly-funded statutory organisations by June 2008, as mentioned in paragraph 257 above;
- (b) the Administration's decision on the Committee's recommendation about ensuring that Controlling Officers for publicly-funded organisations effectively perform their roles and responsibilities, as mentioned in paragraph 258(a)(i) above;
- (c) the Administration's decision on the Committee's recommendation about clearly stating the intended roles and responsibilities of government representatives sitting on the governing bodies of publicly-funded statutory organisations when appointing them, as mentioned in paragraph 258(a)(ii) above;
- (d) the measures taken by the Administration to ensure that members of the governing bodies of publicly-funded statutory organisations are fully aware of and can effectively perform their roles and responsibilities, as mentioned in paragraph 258(b) above;

- (e) the measures taken by the Administration to ensure that the chief executive officers of publicly-funded statutory organisations effectively perform their roles and responsibilities, as mentioned in paragraph 258(c) above;
- (f) the progress made by the HKTB in developing specific guidelines on the authority to enter into sponsorship agreements, as mentioned in paragraph 259(b) above;
- (g) the result of the HKTB's consideration of whether it can recover the difference in premium between the executive medical plan and the medical and dental insurance plans specified in the Employees' Handbook, as mentioned in paragraph 274 above;
- (h) the Administration's decision on the Committee's recommendation about whether the case concerning the provision of the executive medical plan should be referred to any law enforcement agency for follow-up action, as mentioned in paragraph 274 above; and
- (i) any further developments and progress made in implementing the various audit recommendations.