

香港特別行政區政府創新科技署
Innovation and Technology Commission
The Government of the Hong Kong Special Administrative Region

Our Ref : ITCCR 5/22/1610/08

Your Ref : CB(3)/PAC/R51

7 January 2009

Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong
(Attn : Ms Miranda Hon)

Dear Ms Hon,

**The Director of Audit's report on the
Results of value for money audits ("Report No. 51")**

Administration of the DesignSmart Initiative (Chapter 2)

Thank you for your letter of 23 December 2008 regarding the additional information requested by the Public Accounts Committee ("PAC") at the public hearings on 15 and 18 December 2008. The additional information required is as follows.

(a) The administration of the Hong Kong Design Centre (HKDC)

HKDC is a private non-profit making company formed in 2001 by founding design associations. Since the establishment of HKDC, the Commissioner for Innovation and Technology (CIT) has been participating in its governing institutions to provide Board level advice and oversight to the company. For instance, in 2006, the Innovation and Technology Commission (ITC) provided substantial input in revamping the Corporate Governance Manual of the company. However, the daily operations of the company, as for any private company, are the responsibilities of the management.

When the Administration in May 2007 sought the Legislative Council's approval to provide \$100 million to support HKDC's operations, the Administration proposed that there should be an adequate control mechanism. Such a mechanism included a revamp of the composition of the HKDC's Board

of Directors to ensure a balanced representation of stakeholders and an independent overview on HKDC's operation; and a funding agreement which provides, inter alia, that HKDC should submit annual plans and three-year business plans, audited accounts, performance indicators and assessment, quarterly disbursements subject to acceptance of progress, setting of annual income targets and rules on the virement of funds, etc.

The Administration has since been monitoring the HKDC's operations accordingly. As the Audit Report shows (e.g., paragraph 4.20), the ITC has been playing an active role in monitoring HKDC's compliance with the Corporate Governance Manual and has on a number of occasions reminded the management of the need to improve compliance. A further example is that the ITC at a regular liaison meeting with the ICAC in June 2007 proactively requested that a study on the governance and project administration of HKDC should be conducted, to ensure that adequate corruption prevention safeguards were in place. The study was completed in May 2008 and ITC has since been working with HKDC on the follow-up actions.

(b) Guidelines on conflicts of interest for the DSI Assessment Panel

It has always been a requirement that all DSI Panel members have to declare if there is a conflict of interest when they attend the Panel meetings. This requirement is made known to Panel members when they are appointed to the Panel. In addition, before each Panel meeting we remind the attending Panel members in writing with a standard form to declare interests. We will ensure that, in accordance with established guidelines, members who have made a declaration of interest on a particular agenda item, will not be allowed to participate in the discussion of that item.

(c) Two-tier reporting system for DSI Assessment Panel

The two-tier reporting system for all DSI Panel members has been introduced with effect from 1 January 2009.

(d) The number of projects approved under Design-Business Collaboration Scheme (DBCS) as at July 2007 before the review of the DBCS conducted

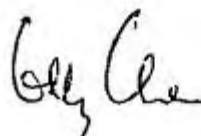
The DBCS review exercise was started in July 2007. To better tap the views of various stakeholders, we have conducted a questionnaire survey, a discussion session and two special DesignSmart Initiative Panel meetings during the review period from July 2007 to June 2008. The new arrangements for DBCS were then implemented in June 2008.

There has been an increasing trend for DBCS applications. Approved applications for DBCS rose from 5 in 2005 to 31 in 2006 and 57 in 2007. For 2008, there were respectively 41 and 35 approved projects before and after the new arrangements of DBCS were implemented in June 2008.

(e) A copy of the report on the review of the DBCS Scheme —

Relevant discussion papers and meeting minutes of the DBCS review are at Annexes A to E. In these records the names of the non-officials presenting their views have been blacked out to preserve their anonymity because they were not aware that their views would be published.

Yours sincerely,



(Eddy Chan)
Commissioner for Innovation and Technology

c.c. Secretary for Commerce and Economic Development (Fax no. 2588 1421) Chairman, Board of Directors, HKDC (Fax no. 2489 2195) Chief Executive Officer, HKDC (Fax no. 2892 2621) Secretary for Financial Services and the Treasury (Fax no. 2147 5239) Director of Audit (Fax no. 2583 9063)	}	All without enclosures
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***Note by Clerk, PAC:** *Annexes A to E not attached.*