

**SUPPLEMENTAL REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE  
ON  
REPORT NO. 49 OF THE DIRECTOR OF AUDIT  
ON  
THE RESULTS OF  
VALUE FOR MONEY AUDITS**

*April 2008*

*P.A.C. Report No. 49A*

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*Introduction*

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**The Establishment of the Committee** The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in *Appendix 1* to this Report.

2. **Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

**Chairman** : Dr Hon Philip WONG Yu-hong, GBS

**Deputy Chairman** : Hon TAM Heung-man

**Members** : Hon LAU Kong-wah, JP  
Hon Andrew CHENG Kar-foo  
Hon Abraham SHEK Lai-him, SBS, JP  
Hon Jeffrey LAM Kin-fung, SBS, JP  
Hon Albert Jinghan CHENG, JP

**Clerk** : Ms Miranda HON Lut-fo

**Legal Adviser** : Mr Jimmy MA Yiu-tim, JP

**The Committee's Procedure** The practice and procedure, as determined by the Committee in accordance with Rule 72 of the Rules of Procedure, are as follows:

- (a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Director of Bureau of the Government or other appropriate officers shall be called. Appearance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;
- (b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to appear before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative could assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for Financial Services and the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and
- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could suggest fruitful areas for value for money study by the Director of Audit.

2.       **Confidentiality undertaking by members of the Committee**       To enhance the integrity of the Committee and its work, members of the Public Accounts Committee have formalised their agreement on confidentiality as a written confidentiality undertaking. Members agree that, in relation to the consideration of the Director of Audit's reports, they will not disclose any matter relating to the proceedings of the Committee that is classified as confidential, which shall include any evidence or documents presented to the Committee, and any information on discussions or deliberations at its meetings, other than at meetings held in public. Members also agree to take the necessary steps to prevent disclosure of such matter either before or after the Committee presents its report to the Council, unless the confidential classification has been removed by the Committee.
3.       A copy of the Confidentiality Undertaking signed by members of the Committee has been uploaded onto the Legislative Council website.
4.       **The Committee's Report**       This Report contains the Public Accounts Committee's supplemental report on Chapters 5 and 6 of Report No. 49 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 28 November 2007. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in **Appendix 2**. The Committee's Report No. 49 was tabled in the Legislative Council on 20 February 2008.
5.       **The Government's Response**       The Government's response to the Committee's Report is contained in the Government Minute, which comments as appropriate on the Committee's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the Committee or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of the Legislative Council within three months of the laying of the Report of the Committee to which it relates.

**Meetings** The Committee held a total of 23 meetings and 15 public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 15 witnesses, including one Head of Department. The names of the witnesses are listed in *Appendix 3* to this Report. A copy of the Chairman's introductory remarks at the public hearing on 10 December 2007, which was the first in the series of public hearings held by the Committee relating to the Director of Audit's Report No. 49, is in *Appendix 4*.

2. **Arrangement of the Report** The evidence of the witnesses who appeared before the Committee, and the Committee's specific conclusions and recommendations, based on the evidence and on its deliberations on the relevant chapters of the Director of Audit's Report, are set out in Part 4 below.

3. The audio record of the proceedings of the Committee's public hearings is available on the Legislative Council web site for the public to listen to.

4. **Communications between two witnesses and the Committee on the Committee's proceedings** In the course of the Committee's consideration of the Director of Audit's Report (Audit Report) on the Hong Kong Tourism Board (HKTb), Ms Clara CHONG, former Executive Director (ED) of the HKTb, and Mrs Grace LEE, former Deputy Executive Director (DED) of the HKTb, had raised concerns about the fairness of the Committee's proceedings in their responses to questions at the Committee's public hearings and in their solicitors' letters addressed to the Committee. This part of the Report gives an account of the issues raised by them and how the Committee had responded to them.

5. When liaising with the witnesses concerned regarding the arrangements of the public hearings, the Committee received letters dated 6 December 2007 from the former ED (in *Appendix 5*) and the former DED (in *Appendix 6*) respectively. In their letters, they requested, among other things, that as a matter of fairness, they be informed as to whether any allegations were going to be made against them at the hearings and, if so, the materials in support of the allegations.

6. In its respective letters to the former ED and the former DED, both dated 10 December 2007 (in *Appendices 7 and 8*), the Committee explained to them its functions and its established practice and procedure for performing such functions. In gist, the Committee stated in the letters that:

- (a) as a standing committee of the Legislative Council (LegCo), the Committee



oversaw the use of public expenditure through consideration of the Audit Reports laid before the LegCo on the Government's accounts and the results of value for money audits of the Government and those organisations which received funding from the Government. The Committee's consideration of the Audit Reports involved gathering evidence relevant to the facts contained in the reports, so that the Committee might draw conclusions and make recommendations in a constructive and forward-looking manner. The objective of the whole exercise was such that the lessons learned from past experience and the Committee's comments on the performance of the public officers or other personnel concerned would enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness; and

- (b) the holding of public hearings was part of the Committee's established process for gathering evidence relevant to the Audit Reports for the purposes stated above. The Committee was not concerned with allegations against any person. Hence, there was no question of making allegations against them at the hearings.

7. On 9 January 2008, when the Committee was still in the process of holding public hearings to receive evidence, the Committee received a letter from the former DED's solicitors (in *Appendix 9*). The solicitors stated in the letter, among other things, that different members of the Committee had made serious unsubstantiated allegations against the former DED at the public hearings, which were wholly unfair and inappropriate. They also stated that members of the Committee should refrain from making unsubstantiated allegations against the former DED, and they reserved their client's rights to take such actions/steps as might be necessary if allegations were continued to be made against their client. The letter also provided further information to supplement the verbal information given by the former DED at the Committee's public hearings.

8. The former ED also sent a letter dated 10 January 2008 to the Committee (in *Appendix 10*) stating, among other things, that she adopted the points made by the former DED's solicitors in their letter of 9 January 2008 in relation to the part on public hearings.

9. In response to the letter of the former DED's solicitors mentioned above, **Dr Hon Philip WONG Yu-hong, Chairman of the Committee**, made the following statement at the beginning of the public hearing on 10 January 2008. He said that:

- (a) according to the practice and procedure of the Committee, under normal circumstances, witnesses invited to attend before it at public hearings were

allowed to be accompanied by legal representatives if necessary. However, normally the legal representatives might not address the Committee. Hence, Mrs Grace LEE should not have expressed her opinions and provided information to the Committee through her solicitors. Instead, she should have forwarded such opinions and information to the Committee direct;

- (b) the Committee would not be affected by Mrs LEE's comments, as mentioned in her solicitors' letter, about members making allegations against her. It was in fact inappropriate for Mrs LEE to seek to influence or interfere with the Committee's way of gathering evidence by means of her solicitors' letter; and
- (c) the Committee was a standing committee of the LegCo. Members of the Committee were provided with the privileges and immunities stipulated in the Basic Law and the LegCo (Powers and Privileges) Ordinance. The Committee would continue to perform its functions in an open, fair and impartial manner, and hold public hearings to gather evidence, without being affected by any comments.

10. After the Committee had finished conducting public hearings and was in the process of holding internal deliberations and preparing its Report, the Committee received a letter dated 3 March 2008 from the former DED (in *Appendix 11*) and a letter dated 4 March 2008 from the former ED (in *Appendix 12*). In their letters, they both stressed that given the Committee's position stated in its letter of 10 December 2007 that the Committee was not concerned with allegations against any person, it would be wholly unfair to them if any adverse findings or criticisms were made against them in the Committee's final Report.

11. In its letters of 6 March 2008 to the former DED and the former ED respectively (in *Appendices 13 and 14*), the Committee responded to the points made by them in the letters mentioned in the last paragraph and reiterated its position on the matter. In summary, the Committee stated that:

- (a) the former DED had quoted the Committee's letter of 10 December 2007 out of context. The said letter purported to address the points made in the former DED's letter of 6 December 2007 in which she requested the Committee, among other things, to inform her whether there would be any allegations made against her at the then forthcoming public hearings and, if so, the materials in support of the allegations. It was in that context that the Committee wrote to explain to her that the purpose of the Committee's hearings was not to deal with allegations against any persons, but to gather evidence relevant to the facts contained in the Audit Reports so that the Committee might formulate the conclusions and recommendations to be included in its Report. As a matter of fact, there was no allegation against any person before the Committee at that time;

- (b) as the former DED had been informed already, the objective of the whole exercise of the Committee's examination of the Audit Reports was that the lessons learned from past experience and the Committee's comments on the performance of the public officers or other personnel concerned would enable the Government to improve its control over the expenditure of public funds. If in the course of its examination, the Committee observed the existence of any irregularities or deficiencies in the governance, management, or utilisation of public resources in a publicly-funded organisation, it had the duty to comment on them, as well as on those persons whom should be held responsible;
- (c) witnesses attending public hearings were given every opportunity to respond to questions asked of them and to state their views. They were also given access to all relevant documents and records which would be referred to at public hearings and the records of the public hearings. In formulating its conclusions and recommendations, the Committee would take into consideration all information provided by all witnesses both at the public hearings or through other means, together with all other evidence received by the Committee;
- (d) the Committee would, as always, continue to perform its functions in an open, fair and impartial manner. It would not allow itself to be subject to any interference, nor would it tolerate any attempt to interfere with its performance of its functions, which included the making of its Report upon the Audit Report on the HKTB; and
- (e) the letters from the former DED and the former ED might be perceived as an attempt to interfere with the Committee's performance of its functions. The Committee considered any such attempt totally inappropriate and unacceptable.

12. On 3 April 2008, the Committee received another letter from the solicitors acting on behalf of the former DED and the former ED (in **Appendix 15**). The letter stated, among other things, that given that any adverse findings or comments in the Committee's Report might seriously affect their clients' reputation and legal position, in order to properly advise their clients on the necessary steps to be taken to protect their position and as a matter of fairness, they requested the Committee to provide its draft Report to their clients before it was released to the public. The solicitors also stated that this would give their clients an opportunity to take proper advice on their positions.

13. In its letter of 21 April 2008 (in **Appendix 16**), the Committee informed the solicitors acting on behalf of the former ED and former DED that the Committee, after careful consideration of their reasons for making the request for the Committee's draft Report and the circumstances relevant to it, decided not to accede to the request.

14.       **Acknowledgements**       The Committee wishes to express its gratitude to all the persons who were invited to give evidence for attending the public hearings and for providing information. In addition, the Committee is grateful for the assistance and constructive advice given by the Secretary for Financial Services and the Treasury, the Legal Adviser and the Clerk. The Committee also wishes to thank the Director of Audit for the objective and professional manner in which he completed his Reports, and for the many services which he and his staff have rendered to the Committee throughout its deliberations.

## **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-ye, 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 1<sup>st</sup> 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

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

13<sup>th</sup> 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 13<sup>th</sup> 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 9<sup>th</sup> and 10<sup>th</sup> 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 Manager'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

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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

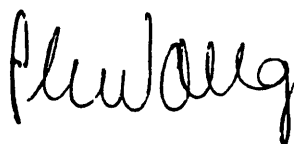
293. The Committee wishes to be kept informed of:

- (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;

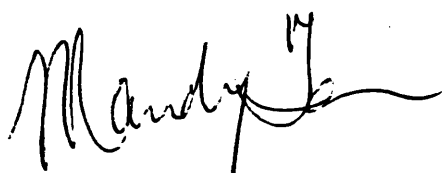
- (e) the measures taken by the Administration to ensure that the chief executive officers of publicly-funded statutory organisations effectively perform their roles and responsibilities, as mentioned in paragraph 258(c) above;
- (f) the progress made by the HKTb in developing specific guidelines on 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.

SIGNATURES OF THE CHAIRMAN,  
DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE

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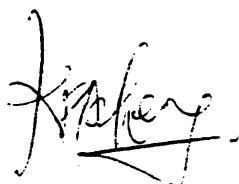
Philip WONG Yu-hong  
(Chairman)



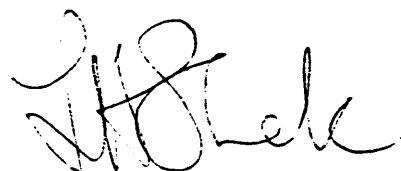
TAM Heung-man  
(Deputy Chairman)



LAU Kong-wah



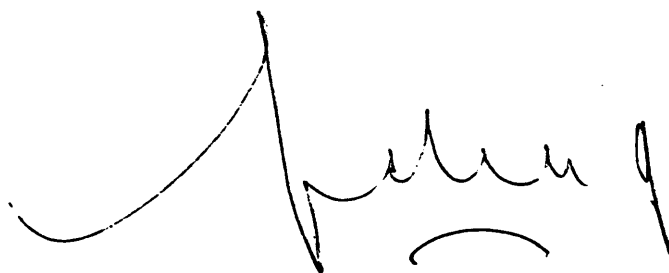
Andrew CHENG Kar-foo



Abraham SHEK Lai-him



Jeffrey LAM Kin-fung



Albert Jinghan CHENG

23 April 2008

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 49  
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S SUPPLEMENTAL REPORT**

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**Director of  
Audit's Report  
No. 49**

**P.A.C.  
Report No. 49A**

<u>Chapter</u>	<u>Subject</u>	<u>Part</u>
5	Hong Kong Tourism Board: Corporate governance and administrative issues	4
6	Hong Kong Tourism Board: Planning, execution and evaluation of marketing activities	4

**RULES OF PROCEDURE OF  
THE LEGISLATIVE COUNCIL OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**72. Public Accounts Committee**

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. (*L.N. 214 of 2005*)

(3A) The chairman and 2 other members shall constitute a quorum of the committee. (*L.N. 214 of 2005*)

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. (*L.N. 214 of 2005*)

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote. (*L.N. 214 of 2005*)

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) *(Repealed L.N. 214 of 2005)*

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council  
by the Chairman of the Public Accounts Committee  
at the meeting on 11 February 1998 on  
Scope of Government Audit in the  
Hong Kong Special Administrative Region -  
'Value for Money Audits'**

**SCOPE OF WORK**

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.
2. The term “audited organisation” shall include -
  - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
  - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
  - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).
3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

## GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;



- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

## **PROCEDURES**

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

**Witnesses who appeared before the Committee  
(in order of appearance)**

Miss AU King-chi, JP	Commissioner for Tourism
Ms Kinnie WONG	Assistant Commissioner for Tourism
Miss Christina YIM	Chief Manager (Tourism), Tourism Commission
Hon James TIEN Pei-chun, GBS, JP	Chairman, Hong Kong Tourism Board
Mr Anthony LAU	Executive Director, Hong Kong Tourism Board
Mrs Daisy LAM	Deputy Executive Director, Hong Kong Tourism Board
Miss Cynthia LEUNG	General Manager, Corporate Communications and Public Relations, Hong Kong Tourism Board
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP	Former Chairman, Hong Kong Tourism Board
Ms Clara CHONG	Former Executive Director, Hong Kong Tourism Board
Mrs Grace LEE CHAN Ka-yan	Former Deputy Executive Director, Hong Kong Tourism Board
Mr Stanley KO, BBS, JP	Former Chairman, Staff and Finance Committee, Hong Kong Tourism Board
Ms Brenda CHAN	Former General Manager, Industry Training and Human Resources, Hong Kong Tourism Board
Ms Claire LAU	Former Manager, Hong Kong Tourism Board
Miss Rita WONG	Secretary to Deputy Executive Director, Hong Kong Tourism Board
Miss Sandy LAU	Secretary to General Manager, Corporate Communications and Public Relations, Hong Kong Tourism Board

**Introductory Remarks by  
Chairman of the Public Accounts Committee,  
Dr Hon Philip WONG Yu-hong, GBS,  
at the Public Hearing of the Committee  
on Monday, 10 December 2007**

Good morning, ladies and gentlemen. Welcome to the Public Accounts Committee's public hearing relating to Report No. 49 of the Director of Audit on the results of value for money audits, which was tabled in the Legislative Council on 28 November 2007.

2. The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the Government's accounts and the results of value for money audits of the Government and those organisations which receive funding from the Government. The consideration by the Committee of the Director's reports involves gathering evidence relevant to the facts contained in the Director's reports, so that the Committee may draw conclusions and make recommendations in a constructive spirit and forward-looking manner. I also wish to stress that the objective of the whole exercise is such that the lessons learned from past experience and our comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

3. The consideration of the Director's reports follows an established process of public hearings where necessary, internal deliberations and publication of the Committee's report. The Committee has an established procedure for ensuring that the parties concerned have a reasonable opportunity to be heard. After the Committee is satisfied that it has ascertained the relevant facts, it will proceed to form its views on those facts, followed by a process of formulating its conclusions and recommendations to be included in its report. In accordance with Rule 72 of the Rules of Procedure of the Legislative Council, the Committee is required to make its report on the Director's report to the Legislative Council within three months of the date at which the Director's report is laid on the Table of the Council. Before then, we will not, as a committee or individually, be making any public comments.

4. Following a preliminary study of Report No. 49, the Committee has decided, in respect of three chapters in the Report, to invite the relevant public officers and other personnel concerned to appear before the Committee and answer our questions. We have, apart from this morning's hearing, also set aside 13 December 2007 for public hearings on the other chapters.

5. I should like to mention here that the Director of Audit's Report is not released into the public domain until it is tabled in the Council. However, it has come to the Committee's attention that prior to Report No. 49 was tabled, there has been a large amount of media coverage of the matters dealt with in the Report, some of which contained details identical or similar to those depicted in the Report. The Committee is dismayed that there were these leakages.

6. The public hearing this morning is on Chapter 10 of Report No. 49 on the subject of "Outsourcing of the management of public rental housing estates". Apart from Chapter 10, there are two other chapters in Report No. 49 which deal with government outsourcing. Chapter 8 covers the outsourcing of environmental hygiene services and Chapter 9 the outsourcing of services in the Leisure and Cultural Services Department. The Committee understands that whilst the three departments each have problems unique to themselves in the management of outsourcing activities, there are also a lot of problems common to them. The Committee has selected Chapter 10 for public hearing because, among the three departments, the Housing Department has engaged the greatest number of workers under its outsourcing contracts, the contract value is the highest, and the number of sub-contractors appointed is also the largest. In addition, it also has the greatest number of cases with employment-related irregularities.

7. The witnesses this morning are: Mr CHAN Chun-yuen (Director of Housing), Mr LAU Kai-hung (Deputy Director of Housing (Estate Management)), Mr CHIU Kin-chee (Chief Manager/ Management (Support Services)) and Mr LEE Kang-sum (Chief Manager/ Management (Support Services)).

8. I now proceed to the public hearing.

Your Ref: CB(3)/PAC/R49

6th December 2007

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

Attn: Ms. Miranda Hon

Dear Madam,

**The Director of Audit's Report on the results of value for money audits  
(Report No.49)  
Chapter 5 - Hong Kong Tourism Board: Corporate governance and  
administrative issues**


I refer to your letter to the Hong Kong Tourism Board dated 5<sup>th</sup> December 2007, a copy of which I have received. I also refer to your letter to me dated 6<sup>th</sup> December 2007.

I would be most grateful if you could make arrangement with the Hong Kong Tourism Board so that I could, as requested in my letter of 4th December 2007, be provided with a full set of the documents which are relevant to the matter and are likely to bear on the areas on which the Committee would require my assistance or evidence. In this regard, I attach a copy of my email to them today for your reference. Furthermore, please could you inform me of any particular areas the Committee would be likely to wish me to deal with. Please also inform me whether any allegations are likely to be made against me, and if there are allegations against me, what are the materials in support. I would need to know this information as a matter of fairness so that I can be prepared to respond. As you will appreciate, until I have been provided with the documents and information requested, and have an opportunity to properly consider them, I should not, as a matter of fairness, be required to respond to the request. Indeed, I am not really in any position to render any useful assistance to the Committee without being given a proper opportunity to review relevant documents when we are looking at matters that happened between 2001 to 2007.

We can discuss the alternative dates when Hong Kong Tourism Board and/or you have provided to me with the documents and/or information requested. For your

information, I am currently teaching at the Hong Kong Polytechnic University and this is a busy period when mid-term assessments are to be completed. I will receive 30+ assessments on 13th December 2007 and I have to mark them by 20<sup>th</sup> December 2007. I have also planned a trip from 6th to 8th January 2008. I should be most grateful if you could bear these in mind when you arrange for alternative dates.

Yours faithfully,



Clara Chong

c.c. Mr. Anthony Lau, Executive Director of the HKT  
Mrs. Daisy LAM, Deputy Executive Director of the HKT  
Mrs. Grace Lee

Clara Chong

寄件者: Clara Chong [REDACTED]

寄件日期: Thursday, December 6, 2007 23:30

收件者: 'Paul Chan'

副本: 'Anthony Lau'; 'Daisy Lam'; 'Portia Chan'; 'grace [REDACTED]'

主旨: RE: The Director of Audit's Report (No. 49) on Hong Kong Tourism Board

Dear Paul,

I refer to the attached email from Portia. Therefore in addition to the information set out below which I requested from the HKTb yesterday afternoon, I would also like to seek your support to provide a full set of documents which are relevant to the subjects that are likely to bear on the areas in respect of which the Public Account Committee would require my assistance or evidence.

I requested the HKTb to provide the following information yesterday, 5 December 2007:-

1. Copies of the 2004/05, 2005/06, 2006/07 Business Plans including the Functional Plans of the DED and each General Manager and their Annual Performance Appraisals.
2. Copies of all documents contained in my personnel file kept by the Hong Kong Tourism Board.

As mentioned in my letter to the Clerk to LegCo's Public Account Committee of 4 December 2007, I would need time to go through the information in order to render more effective assistance to the Committee at the hearing. I would be most grateful if you could deliver the documents to me on or before 7 December 2007 as per the date provided by the Clerk to LegCo's Public Account Committee in their letter to the Hong Kong Tourism Board dated 5 December 2007.

In the meantime, I note the Financial Circular attached to Portia's email. As you know, the Circular only applies to existing Directors of Bureaux and officers and I have already retired from my office at the Hong Kong Tourism Board. Further, the confidentiality obligations set out in paragraph 6 of the Circular are only applicable before the VFM report is tabled in LegCo. In any event, I will treat and hold in strict confidence the documents to be provided to me and only use them for the purpose of giving evidence and seeking legal advices as and when necessary (except where any information or document has become publicly known). With regard to your concern on initiating any publicity, on this matter whilst I have no intention of doing so, I will need to reserve my rights to respond to any unfair or adverse publicity against me at the appropriate time.

Thank you for your kind assistance.

Regards,

Clara

**Mrs. Grace Lee Chan Ka-yan**

Your Ref: CB(3)/PAC/R49

6th December 2007

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

Attn: Ms. Miranda Hon

Dear Madam,

**The Director of Audit's Report on the  
results of value for money audits (Report No.49)**

**Chapter 5 - Hong Kong Tourism Board:  
Corporate governance and administrative issues**

Thank you for your letter to Mr. Anthony Lau, Executive Director of the Hong Kong Tourism Board (HKTb) dated 5th December 2007 (which was copied to me). I note that you have instructed the HKTb to provide documents to me and assume you have informed them and identified the documents that are relevant to me for the public hearing. I attach a copy of their email to me and my email to them today for your reference.

I also refer to your letter of 6th December 2007. With regard to the hearing, I note that you have proposed that I attend the hearing on 13th December 2007 and in addition to Chapter 5, the Committee has now decided to invite me to the public hearing on Chapter 6. As I have mentioned, I will not be available until after 11th December 2007. Further, I need to also inform you that another of my final examination paper for my Doctor Degree Programme is due on 18th December 2007. Until I have received all the relevant documents from the Hong Kong Tourism Board, I will not have any idea on how much time I need to spend to consider them. It will also be helpful if you could let me know of the scope of questions which will be directed to me. I believe that as a matter of fairness, I should be informed by the Committee as to whether there are any allegations which are going to be made against me, and if so, the substance of the materials in support of them.

You will appreciate that as a matter of fairness I will need time to go through the relevant documents to enable me to respond to the request for information and to any allegation that may be directed at me. Allowing me proper time to review the documents would also enable me to render more useful assistance to the Committee at the hearing. I therefore suggest that when the Hong Kong Tourism Board has delivered the documents to me and when you have provided to me a general scope of questions/allegations with the materials in support of them, we could then discuss the alternative dates.



I thank you for your kind attention.

Yours faithfully,



Grace Lee Chan Ka Yan

c.c. **Mr Anthony Lau, Executive Director, HKTB**  
**Mrs Daisy Lam, Deputy Executive Director, HKTB**  
**Ms. Clara Chong**

**From:** Grace Lee  
**Sent:** Friday, December 07, 2007 12:00 AM  
**To:** 'Paul Chan'  
**Cc:** 'Anthony Lau'; 'Daisy Lam'; 'Portia Chan'; chung [REDACTED]  
**Subject:** RE: The Director of Audit's Report (No. 49) on Hong Kong Tourism Board

Dear Paul,

Further to Portia's email below, I am approaching you to seek your assistance to provide the necessary documents to me. I wrote to the Clerk to LegCo's Accounts Committee on Tuesday, 4 December 2007 requesting for their kind assistance in sending me a full set of all documents that are likely to be relevant to me and in relation to which the Committee would like me to give evidence. I note that the Committee has in turn requested the HKTB to do so. In Portia's email, she has requested I contact you in this regards.

I would therefore be grateful if you could provide me with the aforesaid documents as requested by the Committee.

I note Clara's email to you and agree with her observations in the penultimate paragraph which I would reiterate.

Thank you for your assistance .

Regards,

Grace

**From:** Portia Chan [REDACTED]  
**Sent:** Wednesday, December 05, 2007 7:53 PM  
**To:** chung [REDACTED]; grace [REDACTED]; selina [REDACTED]  
**Cc:** Anthony Lau; Daisy Lam; Paul Chan  
**Subject:** The Director of Audit's Report (No. 49) on Hong Kong Tourism Board

Dear Clara, Grace and Selina,

We have just received a letter of 5 December 2007 from the Public Accounts Committee requesting HKTB to provide relevant information and documents to you to facilitate your preparation for the public hearing on the above matter.

To enable HKTB to do so, we would appreciate you contact our Mr Paul Chan, Chief Internal Auditor, at Tel [REDACTED] (email address copied) for necessary arrangement.

Please note that information or documents will be provided on need basis with documents list subject to confidentiality obligation as mentioned in the Financial Circular No. 3/2005 (copy attached).

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We should like to bring your attention to:

- a. Paragraph 6 of the said Financial Circular stipulates that, until the Director of Audit report is tabled in Legislative Council (LegCo), individual issues under investigation are confidential. Under no circumstances should you disclose in the public the issues under investigation.

- b) Paragraph 10 of the said Financial Circular stipulates that, after tabling of the report at LegCo and before the public hearings of the Public Accounts Committee, you should refrain from initiating publicity with a view to countering the Audit findings.

You will be requested to sign a deed of undertaking (copy attached) to confirm receipt of the information and documents we provide, the Financial Circular and compliance with the confidentiality obligation in the Financial Circular.

<<former office bearers deed of undertaking.doc>>

Thank you for your attention.

Regards,

Portia Chan  
Legal Counsel  
Hong Kong Tourism Board  
Email: [REDACTED]  
Direct line: +852 [REDACTED]  
Direct fax: +852 [REDACTED]  
Website: [www.DiscoverHongKong.com](http://www.DiscoverHongKong.com)



立法會

LEGISLATIVE COUNCIL

來函稿號 YOUR REF :  
本函稿號 OUR REF : CB(3)/PAC/R49  
電話 TELEPHONE : 2869 9465  
圖文傳真 FACSIMILE : 2537 1204

10 December 2007

(By fax and post)

Ms Clara CHONG

Dear Ms CHONG

**Public Accounts Committee**

**Public hearings on Chapters 5 and 6  
of the Director of Audit's Report No. 49**

I refer to your letter dated 6 December 2007 which has been considered by the Public Accounts Committee at its meeting today.

The Committee has directed me to explain to you that it is a standing committee of the Legislative Council. It oversees the use of public expenditure through consideration of the reports of the Director of Audit laid before the Council on the Government's accounts and the results of value for money audits of the Government and those organisations which receive funding from the Government. The Committee's consideration of the Director's reports involves gathering evidence relevant to the facts contained in the reports, so that the Committee may draw conclusions and make recommendations in a constructive and forward-looking manner. The objective of the whole exercise is such that the lessons learned from past experience and the Committee's comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

As a standing committee of the Legislative Council, the Committee may exercise the powers conferred by the Legislative Council (Powers and Privileges) Ordinance (Cap 382) to order any person to attend before it and to give evidence or to provide documents by way of summons. Where a person to whom a summons is issued does not attend before the Committee as required by the summons, a warrant may be issued to apprehend him and bring him before the Committee.

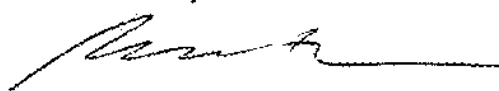
In your letter, you mentioned allegations against you and materials in support. I am directed to clarify that the holding of public hearings on the Director of Audit's reports is part of the Committee's established process for gathering evidence relevant to the reports for the purposes specified in the second paragraph. The Committee is not concerned with allegations against any person. Hence, there is no question of making allegations against you at the hearings.

The Committee has noted that you wish to be provided with a full set of the documents which are relevant to the matter and are likely to bear on the areas in which the Committee would require your assistance or evidence. You may recall that my letter of 6 December 2007 informed you that the Committee has requested the Hong Kong Tourism Board (HKTb) to allow you to have access to the relevant documents. I understand that HKTb is liaising with you in this respect.

Regarding the areas which the Committee would require your assistance or evidence, please note that the Committee may raise questions on any issues raised in Chapters 5 and 6 in order to ascertain the relevant facts contained therein. You will note that the Committee issued two letters on 6 December 2007 and another letter on 7 December 2007 to the Executive Director of HKTb, copied to you, setting out some specific questions and requesting documents relating to Chapters 5 and 6. The Committee also sent you a letter on 6 December 2007 enquiring about the performance-based variable payments. The questions and issues raised in these letters, though not exhaustive, indicate some of the areas on which the Committee may focus at the hearings.

As regards your request for alternative dates for the public hearings, as I have explained to you in my letter of 6 December 2007, the Committee has already considered your need for more time to obtain and study the relevant documents and hence has rescheduled the hearings to 13, 14, 17, 18 and 20 December 2007. The Committee requests that you appear before it on these dates as scheduled.

Yours sincerely



(Ms Miranda HON)  
Clerk

Public Accounts Committee

c.c. Executive Director of the HKTb  
Deputy Executive Director of the HKTb



立法會

LEGISLATIVE COUNCIL

來函檔號 YOUR REF : CB(3)/PAC/R49  
本函檔號 OUR REF : 2869 9465  
電話 TELEPHONE : 2537 1204  
圖文傳真 FACSIMILE : 2537 1204

10 December 2007

(By e-mail and post)

Mrs Grace LEE CHAN Ka-yan

Dear Mrs LEE

**Public Accounts Committee**

**Public hearings on Chapters 5 and 6  
of the Director of Audit's Report No. 49**

I refer to your letter dated 6 December 2007 which has been considered by the Public Accounts Committee at its meeting today.

The Committee has directed me to explain to you that it is a standing committee of the Legislative Council. It oversees the use of public expenditure through consideration of the reports of the Director of Audit laid before the Council on the Government's accounts and the results of value for money audits of the Government and those organisations which receive funding from the Government. The Committee's consideration of the Director's reports involves gathering evidence relevant to the facts contained in the reports, so that the Committee may draw conclusions and make recommendations in a constructive and forward-looking manner. The objective of the whole exercise is such that the lessons learned from past experience and the Committee's comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

As a standing committee of the Legislative Council, the Committee may exercise the powers conferred by the Legislative Council (Powers and Privileges) Ordinance (Cap 382) to order any person to attend before it and to give evidence or to provide documents by way of summons. Where a person to whom a summons is issued does not attend before the Committee as required by the summons, a warrant may be issued to apprehend him and bring him before the Committee.

In your letter, you mentioned allegations against you and materials in support. I am directed to clarify that the holding of public hearings on the Director of Audit's reports is part of the Committee's established process for gathering evidence relevant to the reports for the purposes specified in the second paragraph. The Committee is not concerned with allegations against any person. Hence, there is no question of making allegations against you at the hearings.

The Committee has noted your request for documents which are relevant to the matter. You may recall that my letter of 6 December 2007 informed you that the Committee has requested the Hong Kong Tourism Board (HKTb) to allow you to have access to the relevant documents. I understand that HKTb is liaising with you in this respect.

Regarding the scope of questions which would be directed to you, please note that the Committee may raise questions on any issues raised in Chapters 5 and 6 in order to ascertain the relevant facts contained therein. You will note that the Committee issued two letters on 6 December 2007 and another letter on 7 December 2007 to the Executive Director of HKTb, copied to you, setting out some specific questions and requesting documents relating to Chapters 5 and 6. The Committee also sent a letter on 6 December 2007 to Ms Clara CHONG enquiring about the performance-based variable payments. The questions and issues raised in these letters, though not exhaustive, indicate some of the areas on which the Committee may focus at the hearings.

As regards your request for alternative dates for the public hearings, as I have explained to you in my letter of 6 December 2007, the Committee has already considered your need for more time to obtain and study the relevant documents and hence has rescheduled the hearings to 13, 14, 17, 18 and 20 December 2007. The Committee requests that you appear before it on these dates as scheduled.

Yours sincerely



(Ms Miranda HON)

Clerk

Public Accounts Committee

c.c. Executive Director of the HKTb  
Deputy Executive Director of the HKTb

## RICHARDS BUTLER

齊伯禮律師行  
in association with  
REED SMITH LLP  
禮德律師行聯營行

The Chairman  
Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

Attn: Dr. Hon Philip Wong Yu-hong

your ref CB(3)/PAC/R49  
our ref ARS/cche/L678-001  
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20th Floor  
Alexandra House  
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direct line (852) 2507 9830 Asha Sharma  
(852) 2507 9883 Michael Szeto

direct e-mail arsharma@rsrbhk.com  
mszeto@rsrbhk.com

website www.reedsmith.com

9th January 2008

Dear Sir,

**Re: Public Accounts Committee Hearing ("the Hearing")**

As you may know, we have received instructions to act on behalf of Mrs. Grace Lee who has been giving evidence at the Hearing.

Having taken our client's instructions, considered some of the exchange of correspondence between the Public Accounts Committee ("PAC") and our client, reviewed the transcript of the Hearing and obtained advice from Leading Counsel, we write to put the following on record:

1. In response to our client's letter dated 6th December 2007 enquiring expressly as to whether there were any allegations which were going to be made against our client at the Hearing, by a letter dated 10th December 2007 from the Clerk to the PAC to our client, she stated that:

*"I am directed to clarify that the holding of public hearings on the Director of Audit's reports is part of the Committee's established process for gathering evidence relevant to the reports for the purposes specified in the second paragraph. The Committee is not*

**PARTNERS:**

C G Howse  
D M Norman  
A D Morrison  
C J Williams

A K Brown  
G P Winter  
Denise Jong  
J N Green

M R D Pepper  
Nanette Kwong  
Asha Sharma  
Delphi Ho

D G Harrington  
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K C Mok  
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Ivy Lai  
W J G Barber

L J Li  
C S K Tang  
A W M Kaung  
D Kan

K R Bowers  
Doreen Kong  
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concerned with allegations against any person. Hence, there is no question of making allegations against you at the hearings."

Notwithstanding the stated position of the PAC as aforesaid, we note from the transcript that serious unsubstantiated allegations have been directed towards our client by different members of the PAC. This is wholly unfair and inappropriate. For your ease of reference, we attach a schedule with extracts from the transcript of the Hearing. The schedule contains *examples* where members uttered unsubstantiated allegations, appeared to have already made up their minds on issues that were controversial before hearing all the evidence, and where they appear to have been biased. You will appreciate that the Hearing is an inquisitorial proceeding conducted in public which may lead to findings or conclusions by the PAC which may impugn the character and reputation of those involved. Amongst the cardinal principles of such a process are the need to be fair, to inform the witnesses of any allegations against them together with the substance of such allegations, to give the witnesses an adequate opportunity to prepare the case and if necessary an opportunity of testing any evidence/allegations by cross-examination. It is essential that the rules of natural justice are observed. Members of the PAC should refrain from making unsubstantiated allegations against our client and in this regard, we reserve our client's rights to take such actions/steps as may be necessary if allegations continue to be made against her.

2. On the express statement from the PAC (as referred to above) our client has not challenged the composition of the PAC and its independence. However, we would like to let you know that our client reserves her right to object to this tribunal making any findings if any allegations are to be made or suggested against our client on the ground of bias or reasonable apprehension of bias.

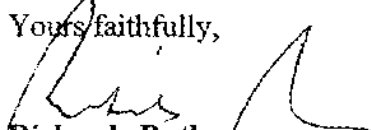
We are further instructed by our client to provide you with the following which is the evidence she wanted to provide orally to put right certain facts which were misquoted by members of the PAC at the Hearing but was either not given the opportunity to do so, interrupted or stopped:

1. In or about February/March 2004 Mrs. Lee received instructions from her superior, Ms. Clara Chong that her request for an upgraded medical has been approved by the then Chairperson of the Hong Kong Tourism Board ("HKTb") (a fact that was verified by Mr. Stanley Ko whilst giving evidence on 19th December 2007) and that Mrs. Lee can proceed to find a suitable plan for Ms. Chong. Mrs. Lee gave instructions to her subordinate, Ms. Brenda Chan to find a suitable plan and to liaise with Ms. Chong directly.
2. Mrs. Lee had no further direct involvement with the decision to select the plan apart from dealing with any questions from Ms. Brenda Chan from time to time and to instruct Ms. Brenda Chan to get the best value out of the plan eventually shortlisted. Mrs. Lee's next major involvement was when she was informed on or about 2nd September 2004 that a plan had been found after which she wrote to the Chairperson by email on 2nd September 2004 seeking her approval on the plan.

3. In or about late March 2004, Mrs. Lee was informed by the former Chairperson that the renewal of Ms. Chong's contract had been approved and was instructed to prepare the new contract. She therefore proceeded to prepare the new contract on the basis of the old contract. According to manuscript notes on the draft renewal contract it appears that Mrs. Lee got confirmation from the Chairperson to continue allowing cash in lieu of the travel allowance and recorded the fact that an upgraded medical plan had been agreed to by the Chairperson. The former item as well as Ms. Chong's personal portion of her monthly mobile phone bill although never formed part of even the original written employment contract between the HKTb and Ms. Chong were nevertheless verbally approved by the former Chairperson and provided to Ms. Chong. Further, there were other items in the original employment contract of Ms. Chong, namely the provision of a private car with driver and membership of clubs which were not in the list of items submitted by the former Chairperson to the Financial Secretary for approval. Our client was therefore not aware that the Financial Secretary's approval was required for such items. These factors coupled with the fact that the former Chairperson personally told Mrs. Lee that it was not necessary to incorporate the cash in lieu of travelling allowance into the written contract caused no concern to Mrs. Lee that she was not asked to include the upgraded medical plan as a specific term in the written contract. The renewed written contract was then passed to the former Chairperson to be forwarded to Ms. Chong and it now appears from emails in the possession of the HKTb that the renewed contract was probably not yet signed by February 2005. Of course, the very fact that Ms. Chong continued working for the HKTb is evident of the existence of a renewed contract which had been agreed orally (including the approval given orally by the then Chairperson for Ms. Chong to have an upgraded medical plan), leaving only the creation of a written document to be executed by the parties.

In the meantime, we expressly reserve all our client's rights.

Yours faithfully,

  
**Richards Butler**  
**in association with Reed Smith LLP**  
(Encl.)

cc: Ms. Clara Chong

## SCHEDULE

13 December 2007

Verbatim transcript (in Chinese): R49/5/VER2 pp.95-96

劉江華議員：

主席，我覺得非常詫異，就剛才臧女士和李太說的一番說話。臧女士說她這些手續，其實這些手續基本上是超越了合約，修改了合約，她說她不知道要跟財政司司長說。我最初以為李太會知道，但李太卻說她也不知道。作為總幹事和副總幹事，這麼高級的職員，也不知道要按規矩行事，那麼誰才知道呢？誰去做呢？這似乎從你兩位的薪酬和職位，似乎有點不大相稱。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 pp.45-46

鄭經翰議員：

.....你是一位資深的行政人員，每年有數百萬元工資，"大佬"，你連合約也不懂得看，只是在這裏說"廢話"。接着翻看Handbook，在1999年前入職的，家人便有coverage，但1999年之後入職的人是沒有的，就是這麼簡單。我就是想你回答我的問題，你有沒有看過合約？有沒有根據合約execute？有沒有根據合約advise主席，她是entitled這方面，即主席的問題還主席問題，現在你的問題最大，所以我想你回答。你不要說那麼多了，因為我們身為委員.....你現在是在浪費公帑，我們昨天已用了差不多4個小時，今天又用了兩個小時，聽你回答一些與我們的提問完全無關的東西。主席，我希望你叫她回答這個問題，我不想再聽其他東西。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 pp.51-52

鄭經翰議員：

李太，我已經很……我覺得我自己，尤其是我本身是比較心急的人，我已經很容忍你在昨天和今天的作供，我一直也沒有作聲。但我現在問你的問題是很到點的，便是看看合約。你現在告訴我，臧小姐叫你做甚麼你便做甚麼，你說她告訴你，你要看合約的，你的工作不是做她的“阿四”。你是在旅遊發展局做副總幹事，年薪數百萬元。你不要對我說，臧小姐叫你甚麼……除非我現在問你的問題，是給你機會澄清。你是否有壓力呢？是否臧小姐給你壓力：第一，找一個這麼貴的plan；第二，要誤導主席或要求主席endorse這件事呢？你是否有壓力呢？我想先問你這個問題。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.73

林健鋒議員：

…… 其實，她是否真的有盡責做這些事情呢？就這樣隻手遮天，她認為沒事便沒事，只相信一念之詞[一面之辭]，是沒有文件的，別人告訴她是怎樣便怎樣。我想問一問李太，她在這方面是否犯了一個很……對不起？是不是沒有想過這樣是不符合合約中的要求？她的直覺是覺得這些是完全沒有問題的。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.80

劉江華議員：

主席，剛才周太最後的證供，我覺得對李太和對臧小姐其實十分不利。周太點出9月的電郵，事實上，可以看到計劃或保金也是在合約之內的，所以周太覺得是誤導，李太對此也無可否認，當然，究竟是

	<p>有心抑或無意，她稍後也可以談談。但對臧小姐的不利之處，第一，臧小姐一直說她曾口頭跟主席說過，但主席，即周太卻表示沒有，沒有這回事，你們兩個或者3個閉門.....但這個計劃與你本身很有關係，而且還有利益關係，主席說沒有，沒有應承過，而你繼續堅持說有，我們如何能夠相信你呢？</p> <p>另外一點，主席，即周太剛才說曾吩咐你，如果有改動的話，便應該交給理事會、財政司，但臧小姐說沒有，而且也不知道要這樣做，<u>但我想強調一點，這是你的利益，對嗎？你一直的做法是否都是"自把自為"呢？</u>所以，我認為對你十分不利便是這個意思，除非你能提出一些證據，推翻周太所有的說話。</p>
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14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.83

劉江華議員：

主席，我勸李太今天回去後真的要想清楚整件事，特別是提到7月的電郵，我們幾位同事分別也.....大家看過後也十分明白，特別是你寫那封email，基本上heading、subject是Clara's Medical，即是有關醫療的，如果你扭曲至以其他事為重點，其實，我便覺得有點是否誠實的問題，而且你當中亦有一句話，說你曾直接跟主席說過，但昨天你的供詞卻否認了，說要多加數個字，這真的是很難處理的。我們只能看這封email作準，你今天卻說推翻當時的email是沒有作用的，所以，我希望你再重整一下真相是甚麼。你來到立法會便要說真相，不是"兜"，也不是"包抄"，不是的，你一定要說出真相，似乎現在我們覺得你說的並不是真相，所以我想請你真的要想清楚。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.91

鄭經翰議員:

.....還有一點。當你發出誤導周太的電郵那兒.....如果有一個這樣的電郵，這是很重要的，為甚麼你不把電郵的內容告知周太呢？多謝主席。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.98

鄭經翰議員:

是否你想給你上司"著數"呢？要please她呢？還是她給你壓力呢？我不知道。

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.105

石禮謙議員:

.....如果她要按照條例，處理每件事也須合法，為何不要求周太處理，而要Grace向周太取得同意，然後在9月2日，Grace很清晰地保護你及她自己，要求Brenda緊記存放在file，日後便是“釘死”周太就是這是.....

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.116

鄭經翰議員:

我想先問李太，因為 7 月 12 日的 email 是很重要的，.....如果我的理解正確，這真是無法無天的，便是"I have the Chairman's words directly."，即是周太直接對她說，"Since the amount is not significant," 錢是很濕碎的，"the Chairman agreed that these terms need not be written into the contract."所以錢少的關

	<p>係，便無須寫在合約內，即無須依法辦事。”You can keep a copy of this in Clara's file for record and future reference.”，<u>作為一個法規部主管，怎能寫這些，錢，一個仙，貪污就是貪污；一個仙，我們負責衡工量值的，有一個仙使不得其所，我們都要針對及檢討，她怎可說因為錢額不大……但問題是，她怎可以這樣 advise human resources 的同事，告知因為錢銀很濕碎，我們根本無須理會合約，因為周太說這樣就這樣，這叫法規部嗎？周太或臧小姐 run 旅發局是否真的如此，是否反映了其實這就是個架構，是人治的？我想問，她寫這 email 時，是否知道自己完全失職及罔顧法規呢？</u>多謝主席。</p>
--	---

14 December 2007

Verbatim transcript (in Chinese): R49/5/VER3 p.117

鄭經翰議員：

……主席，如果我接受她的解釋，第一點我想提醒她，現在牽涉公帑，我作為市民、納稅人及立法會也感到很悲哀，悲哀的地方是她寫過的東西可以全部否認，……即使、即使我接受她那麼牽強、不合法及不合情理的解釋，即使提到 travelling allowance，也不可以這樣做，我就跟她說這一點，她也不可以這樣做，當我接受她說 travelling allowance：不用理會，主席說這些很濕碎無須寫入合約，她便說 OK，她根本是失職。她有甚麼資格掌管企業行政、掌管法律顧問、財務管理及人力呢？如果她以這種方式做事，她有甚麼資格呢？即有法不依，這是很悲哀的。

17 December 2007

Verbatim transcript (in Chinese): R49/5/VER4 pp.38-39

譚香文議員：

你沒有想清楚以員工(副總幹事)的身份，繼續跟進或者檢討在一個良好管治的精神之下，究竟這個超豪華的保險是否有需要、有沒有一些方法可以節省一些金錢呢？你不作跟進，只是依賴人事部做，你是副總幹事的，你在這方面是否失職呢？

17 December 2007

Verbatim transcript (in Chinese): R49/5/VER4 p.43

鄭經翰議員：

你說是主席同意，但卻說是臧小姐告訴你的，怎可以聽第三……你是一位專業……現在說的是一項專業服務，你怎可以這麼想？你全都是聽第三者說的，但有一項十分專業的意見告訴你，人事部告訴你，這個plan是不可行的，你亦說得很清楚——你剛才也沒有“車大炮”，你有時候也很誠實——你說你並不是只看一個電郵，經常就著Clara的保險問題，與Brenda商討很多次，不只1次，這是事實，電郵也是這樣說，她是忍無可忍了，所以她不再repeat、不再重複跟你說過的話，只是很斬釘截鐵地告訴你，如果看過這些電郵，任何有正常判斷力的行政人員也知道“大鑊”了，這是行不通的，你怎可以相信一面之詞，便說Clara告訴你已得到主席批准。我這個問題你無須回答了，因為我已經有……我想大家也是公道的。

……你諮詢主席同意了，問她你可否行使、執行這件事，你是完全誤導的。



17 December 2007

Verbatim transcript (in Chinese): R49/5/VER4 pp.45-46

鄭經翰議員：

你為甚麼……問題是你為甚麼誤導周太？在你的電郵中，替……其實今次的聆訊，看到這封電郵後，周太好像沒有甚麼責任，即看起來，因為是你告訴她合約內有這樣的條款。你剛才說Grace告訴你得到周太的同意，但合同卻沒法說出來的，是有白紙黑字，你告訴我，為甚麼你會有這樣的感覺呢？這種感覺是人事部已經告訴你是不可行的，之後你自己作出這個決定，你可否告訴大家，你是如何決定的呢？

17 December 2007

Verbatim transcript (in Chinese): R49/5/VER4 p.47

鄭經翰議員：

……你和周太在合約上簽署。根據僱傭合約第 14.3 條，你完全沒有做的。我真的想問你，究竟你做過甚麼？究竟你每天上班是否魂遊四海，像我一樣呢？因為我聽你說話便開始魂遊四海。

17 December 2007

Verbatim transcript (in Chinese): R49/5/VER4 p.70

譚香文議員：

……作供這麼久給我的感覺，李太偏幫她的上司，對嗎？

19 December 2007

Verbatim transcript (in Chinese): R49/5/VER6 p.53

譚香文議員：

……剛才兩個專家所說的意見，在你的電郵中，你有否誤導主席，這個新的要求，這個 contract

	renewal 所謂 form 它的內容呢？即新的合約的釐定的跟進的條款呢？
--	--

19 December 2007 Verbatim transcript (in Chinese): R49/5/VER6 p.84	
鄭經翰議員：	..... 李太你沒有回答我的問題， <u>你是在迴避問題</u> ，很不好意思，我不是要指責你，我只是告訴你， <u>你給我的感覺或者給公眾的感覺，是你在迴避問題</u> 。我是問你.....terms 是很簡單的，大家也懂得這個字“t-e-r-m-s”，這個字十分簡單，terms 便是 refer to 合同的 terms，verbal agreement 並不是 terms，OK？terms 便是 terms，我問你在這份合約內，有一點有這個 terms？是沒有的，你無須回答了，我已經替你看過， <u>你無中生有，我也覺得技術非常高</u> 。

20 December 2007 Verbatim transcript (in Chinese): R49/5/VER7 p.81	
劉江華議員：	.....而我們看回你的職責，你跟政府有很多事情是有瓜葛的，是由你負責跟政府聯繫的，但在這件事情上，似乎你沒有跟政府有任何商討，或跟財政司司長有商量等。 <u>你覺得在整件事情中，你應否負上較大的責任呢？</u>

20 December 2007 Verbatim transcript (in Chinese): R49/5/VER7 p.85	
劉江華議員：	我知道，歸根究底，我的問題是，就整件事情來說， <u>你是否應該負很大的責任？</u> 你是否同意？應該溝通的你却没有溝通，是嗎？

20 December 2007

Verbatim transcript (in Chinese): R49/5/VER7 p.98

石禮謙議員：

.....1,500 萬元的 contract，不是 1,000 萬元，Albert。這是“濕濕碎”的。但問題不是這樣，你這樣回答她，你有 misrepresentation，你錯.....故意引.....我不知道你是故意，還是你說的無意，你令她做一個 resource....Human Resources GM，有一個很大的“老細”這樣說，她便不可以再問，為甚麼你.....如果你覺得你有做錯，為甚麼你不告訴她呢？因為 Brenda 可以口頭告訴我，是不是你收到那個，你便已經 chapter closed？Brenda。

20 December 2007

Verbatim transcript: R49/5/VER7 p.102

石禮謙議員：

直至我再看，便很難相信。為甚麼呢？她混淆了數件事，套在一個 medical scheme 中，這件事.....Grace 你是做錯了.....

Your Ref: CB(3)/PAC/R49

10th January 2008

**BY HAND**

The Chairman  
Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

Attn: Dr. Hon Philip Wong Yu-hong

Dear Sir,

**Re: Public Accounts Committee Hearing ("the Hearing")**

I refer to the above and to the letter sent by Messrs. Richards Butler in association with Reed Smith LLP ("Richards Butler") acting on behalf of Mrs. Grace Lee (which was copied to me). I have read the said letter and adopt the points made by Richards Butler in relation to the Hearing (as defined in Richards Butler's letter).

For the record, I would also like to point out the following which relate to allegations made/suggested against me during the Hearing:-

1. One of the members of the PAC seemed to suggest that I was not working according to the law or that he has concerns on "*good governance*". As the PAC will know, the Tourism Commissioner is the Deputy Chairman of the Hong Kong Tourism Board ("TB") representing the government and sits on all Committee meetings. Accordingly, she would at all times be fully aware of the discussions during our meetings as well as the process for approval of the Annual Business Plan ("ABP"). The Tourism Commissioner is also the key liaison between TB and the government so that in the event she has any concerns or issues regarding the ABP, she could be in a position to bring this up before any commitment is made by TB. Further, I made a separate presentation to the Financial Secretary on the proposal of "*Discover Hong Kong Year Campaign*". The Financial Secretary 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 TB on a monthly basis even though the ABP and budget were still in the process of being approved.

This was an indication to us and also gave us the confidence to proceed with certain more urgent tasks defined in the ABP, especially since the Tourism Commissioner (being part of government and a designated representative of the government on the board), was at all times well aware of all the discussions and the logic behind our decisions; in particular the established process adopted by TB 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. My use of the word "*flexibility*" in this regard meant that our practice when entering into contracts was to allow room for changes when necessary without having to forfeit any payments made or to minimise any risk of forfeitures.

2. As far as my renewed contract is concerned, I have repeatedly stated during my evidence that the Chairman had given me in principle approval on an upgraded medical plan. This is evidenced by the notes I made after the meeting, a copy of which has been produced to the PAC. I attach another copy to this letter for ease of reference. Further, Mr. Stanley Ko has also given evidence and confirmed what I have said in my evidence. He said "在談論續約的過程之中，我的記憶是，周太和我是同意她可以找一個這樣計劃。 (*During the process of discussing the renewal of the contract, my memory is that Mrs. Chow*

*and I agreed that she could look for such a plan.)".* Being the Executive Director of TB with heavy responsibilities coupled with my poor health during my very busy period with TB, it was not at all unreasonable for me to request for a better medical plan to cover all contingencies.

- 3, On the question of when my renewed contract was signed by me, I can only say that I recall being given the original but I am now unable to recall when I actually signed it. There were lots of documents for signature on a daily basis, especially during my term at TB when Hong Kong faced one of its most difficult periods. There is a possibility that the renewed contract was overshadowed by other more important tasks I was busy with at the time. As I mentioned during my evidence I only realized that the renewed contract was not signed for sometime when I was reading through the emails in my P-file provided to me by TB specifically for this hearing.

I trust the PAC will consider the evidence fairly. In this regard, I reserve all my rights generally on the matter.

Yours faithfully,

  
Clara Chong

	Items	(A) Original package	(B) 5% increment of fixed pay of original package (Fixed : variable mix = 85:15)	(C) Clara's proposal for consideration
1	Total Remuneration / year excluding gratuity	\$3.3m (= compa ratio 93%)	\$3.706m (= compa ratio 104%)	\$3.925m (= compa ratio 110%)
2	- Fixed remuneration	\$3,000,000 [\$250,000 / month]	\$3,150,000 (85% fixed) [\$262,500 / month]	\$3,336,000 (85% fixed) [\$278,000 / month]
3	- Variable remuneration	\$300,000 (10% of fixed remuneration)	\$556,000 (15% variable)	\$589,000 (15% variable)
4	Gratuity / year	\$450,000 (15%)	\$472,500 (15%)	\$500,400 (15%)
5	Total package including gratuity = (1) + (4)	\$3,750,000	\$4,178,500	\$4,425,400
			B/A = +11.4%	C/A = +18%

As discussed yesterday, annual leave will increase to 30 working days, upgrade the current medical coverage scheme and change the current passage leave to cover family members and ~~abroad~~ extending to a business class return tickets to London, per annum.



Your Ref: CB(3)/PAC/R49

3rd March 2008

The Chairman  
Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

Attn: Dr Hon Philip Wong Yu-hong

Dear Sir,

**The Director of Audit's Report on the  
results of value for money audits (Report No.49)**

I refer to the letter from my solicitors Messrs. Richards Butler in association with Reed Smith LLP to you dated 9th January 2008.

You indicated at the beginning of the hearing on 10th January 2008 that I should not have supplied information or expressed opinions to the Committee through lawyers. So that the Committee can have before it all the relevant evidence and for the avoidance of doubt, by this letter I adopt all the contents of my solicitors' letter, which should be treated as part of my evidence given to the Committee.

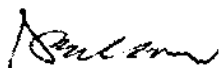
Moreover, may I respectfully remind you of the Clerk to the PAC's letter dated 10th December 2007 to me before the hearing:

*"I am directed to clarify that the holding of the public hearings on the Director of Audit's reports is part of the Committee's established process for gathering evidence relevant to the reports for the purposes specified in the second paragraph. The Committee is not concerned with allegations against any person. Hence, there is no question of making allegations against you at the hearings."*

That being the stated position, it would be wholly unfair to me if any adverse findings or criticisms are made against me in the final report. In this regard, I hereby reserve all my legal rights.

I thank you for your kind attention.

Yours faithfully,



Grace LEE CHAN Ka Yan

c.c. Ms. Clara Chong

Your Ref: CB(3)/PAC/R49

4th March 2008

BY HAND

The Chairman  
Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

Attn: Dr. Hon Philip Wong Yu-hong

Dear Sir,

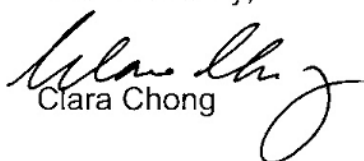
Re: Public Accounts Committee Hearing ("the Hearing")

I write further to my letter of 10th January 2008 and refer to the letter from Mrs. Grace Lee to you dated 3rd March 2008 (which has been copied to me).

I adopt the points made by Mrs. Grace Lee in her letter regarding the hearing. I also wish to stress that it would be wholly unfair to me if any adverse findings or criticisms are made against me in the final report.

In this regard, I reserve all my rights on this matter.

Yours faithfully,

  
Clara Chong

c.c. Mrs. Grace Lee



立法會  
LEGISLATIVE COUNCIL

英文傳真 FAX/TELE

本局傳真 OUTLINE

電 話 TELEPHONE

圖文傳真 FACSIMILE

CB(3)/PAC/R49

2869 9465

2537 1204

6 March 2008  
(By e-mail and post)

Mrs Grace LEE CHAN Ka-yan

Dear Mrs LEE

**Public Accounts Committee**

**The Director of Audit's Report on the  
results of value for money audits (Report No. 49)**

I refer to your letter of 3 March 2008 to the Chairman of the Public Accounts Committee. At its meeting on 4 March 2008, the Committee considered the letter and noted that you have adopted all the contents of the letter of 9 January 2008 from Messrs Richards Butler in association with Reed Smith LLP as part of your evidence given to the Committee. The Committee also noted that you stated that it would be wholly unfair to you if any adverse findings or criticisms are made against you in the Committee's final report, and that you reserved all your legal rights in that regard. The Committee has directed me to respond as follows.

The Committee would like to point out that you have quoted my letter of 10 December 2007 out of context. The said letter purported to address the points made in your letter of 6 December 2007 in which you requested the Committee, amongst other things, to inform you whether there would be any allegations made against you at the then forthcoming public hearings and, if so, the materials in support of the allegations. It was in that context that I wrote to explain to you that the purpose of the Committee's hearings was not to deal with allegations against any persons, but to gather evidence relevant to the facts contained in the Director of Audit's reports so that the Committee might formulate the conclusions and recommendations to be included in its report. As a matter of fact, there was no allegation against any person before the Committee at that time.

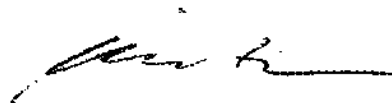
The Committee would like to inform you once again that the objective of the whole exercise of its examination of the Director of Audit's reports is such that the lessons learned from past experience and the Committee's comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness. The Committee has the duty to comment, in its report, whether public funding has been properly utilised. If in the course of its examination, the Committee observes the existence of any irregularities or deficiencies in the governance, management, or utilisation of public resources in a publicly-funded organisation, it also has the duty to comment on them, as well as on those persons whom should be held responsible.

The Committee would like to point out that witnesses attending public hearings are given every opportunity to respond to questions asked of them and to state their views. They are also given access to all relevant documents and records which would be referred to at public hearings and records of the public hearings. In formulating its conclusions and recommendations, the Committee would take into consideration all information provided by all witnesses both at the public hearings or through other means, together with all other evidence received by the Committee.

The Committee would also like to point out that it is a standing committee of the Legislative Council. Under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382), the Committee is vested with the necessary powers for the performance of its functions, and members of the Committee are provided with immunities and privileges as stipulated therein. The Committee will, as always, continue to perform its functions in an open, fair and impartial manner. It will not allow itself to be subject to any interference, nor will it tolerate any attempt to interfere with its performance of its functions, which include the making of its report upon the Director of Audit's report on the Hong Kong Tourism Board.

Last but certainly not least, the Committee would like to bring to your attention that your letter may be perceived as an attempt to interfere with the Committee's performance of its functions. The Committee considers any such attempt totally inappropriate and unacceptable.

Yours sincerely



(Ms Miranda HON)  
Clerk  
Public Accounts Committee



中華人民共和國香港特別行政區  
Hong Kong Special Administrative Region of the People's Republic of China



立法會  
LEGISLATIVE COUNCIL

來函編號 YOUR REF : CB(3)/PAC/R49  
本函編號 OUR REF : 2869 9465  
電 話 TELEPHONE : 2537 1204  
圖文傳真 FACSIMILE :

6 March 2008  
(By e-mail and post)

Ms Clara CHONG

Dear Ms CHONG

**Public Accounts Committee**

**The Director of Audit's Report on the  
results of value for money audits (Report No. 49)**

I refer to your letter of 4 March 2008 to the Chairman of the Public Accounts Committee, the contents of which have been noted by the Committee.

The Committee noted that you have adopted the points made by Mrs Grace LEE in her letter of 3 March 2008. In this connection, I have been directed by the Committee to forward to you a copy of my letter dated 6 March 2008 to Mrs Grace LEE, which sets out the Committee's response to the points made by her, as a response to you.

Yours sincerely

(Ms Miranda HON)  
Clerk  
Public Accounts Committee

Encl.

**\*Note by Clerk, PAC:** *The Clerk to PAC's letter dated 6 March 2008 to Mrs Grace LEE not attached. Please refer to Appendix 13 for the letter.*

# RICHARDS BUTLER

齊伯禮律師行

in association with

REED SMITH LLP

禮德律師行聯營行

## **BY HAND**

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

Attn: Ms. Miranda Hon

your ref CB(3)/PAC/R49

our ref ARS/L678-001  
H:\Msk\0976E-2.doc

20th Floor  
Alexandra House  
16-20 Chater Road  
Central, Hong Kong

telephone (852) 2810 8008

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direct line (852) 2507 9830 Asha Sharma  
(852) 2507 9883 Michael Szeto

direct e-mail arsharma@rsrbhk.com  
mszeto@rsrbhk.com

website www.reedsmith.com

3rd April 2008

Dear Madam,

## **Re: Public Accounts Committee Hearing ("the Hearing")**

We act on behalf of Mrs. Grace Lee and Ms. Clara Chong in respect of the above matter and refer to the following correspondence between the Public Accounts Committee ("PAC") and our clients:-

- (i) a letter from the PAC to Mrs. Lee dated 6th March 2008;
- (ii) a letter from the PAC to Ms. Chong dated 6th March 2008;
- (iii) an email from Ms. Serena Chu, Senior Council Secretary of the Legislative Council Secretariat to Mrs. Lee dated 27th March 2008; and
- (iv) an email from Ms. Serena Chu to Ms. Chong dated 27th March 2008.

## **(A) PAC's letters dated 6th March 2008**

Having taken our clients' instructions and obtained advice from Leading Counsel, Mr. Benjamin Yu SC, we would like to point out the following in response to your letter to Mrs. Lee of 6th March 2008:-

### **PARTNERS:**

C G Howse  
D M Norman  
A D Morrison  
C J Williams

A K Brown  
G P Winter  
Denise Jong  
J N Green

M R D Pepper  
Nanette Kwong  
Asha Sharma  
Delpha Ho

D G Harrington  
S J Birt  
Alice Hutchens  
A D Horton

K C Mok  
Janet Cheung  
Ivy Lai  
W J G Barber

L J Li  
C S K Tang  
A W M Kaung  
D Kan

K R Bowers  
Doreen Kong  
Emma Casdagli  
R W K Choy

**Richards Butler: Hong Kong • Beijing**

**Reed Smith Richards Butler LLP: London • Paris • Abu Dhabi • Birmingham • Dubai • Greece**

**Reed Smith LLP: Hong Kong • New York • Chicago • Los Angeles • Washington, D.C. • San Francisco • Philadelphia • Pittsburgh • Oakland • Munich • Princeton • Northern Virginia • Wilmington • Century City • Richmond**

Beijing office address: Room 703B Huapu International Plaza, 19 Chaowai Avenue, Chaoyang District, Beijing 100020, PRC

中國北京市朝陽區朝外大街19號華普國際大廈703B 郵編100020 telephone (86) 10 6580 3690/1 facsimile (86) 10 6580 2701 e-mail rb@ht.rol.cn.net

- (1) We are surprised by your assertion that Mrs. Lee has quoted your letter of 10th December 2007 (“**your Letter**”) out of context. You have made it very clear in your Letter that the PAC was not concerned with allegations against any person and there was no question of making allegations against Mrs. Lee at the hearings. That statement by its terms was not limited to the point in time when your Letter was issued, rather, on a fair reading of the same, it clearly applied to the entire Hearing. With respect, your Letter was not in the terms you have now used nor was it restricted to the position at the time of your Letter. Your letter of 6th March 2008 to Mrs. Lee has therefore misquoted your Letter. Further and in any event, the PAC has at no point indicated or stated any change of its position.
- (2) With regard to the second paragraph on page 2 of your letter of 6th March 2008 to Mrs. Lee, we have already pointed out in our letter of 9th January 2008 that Mrs. Lee was often interrupted or stopped whilst giving evidence and it is also obvious that the Hearing gave no opportunity for the evidence to be tested by cross-examination conducted on behalf of Mrs. Lee. Our clients have been advised by Leading Counsel that the PAC is obliged to observe the rules of natural justice and has the duty to act fairly. Whilst the PAC is a standing committee of the Legislative Council, it does not follow that the PAC can ignore the rules of natural justice in conducting public hearings or performing its functions. The whole process must be conducted in a fair manner. In reminding the PAC of its duty to observe the rules of natural justice and fairness, there is no question of any attempt by Mrs. Lee to interfere with the performance of the PAC’s functions. For the avoidance of doubt, the same also applies to Ms. Chong. We suggest the PAC should take legal advice on the matter.
- (3) You will be aware that the PAC has never informed Mrs. Lee nor Ms. Chong at any stage of any allegations to be made against them or the substance of such allegations. Given that any adverse findings or comments in the PAC Report might seriously affect our clients’ reputation and legal position, in order to properly advise our clients on the necessary steps to be taken to protect their position and as a matter of fairness, we would like to request the PAC to provide the draft Report to our clients before it is released to the public. This will give our clients an opportunity to take proper advice on their positions.

In this regard, if you wish, our clients are prepared to obtain a written advice from Mr. Yu SC for your reference.

**(B) Emails from Ms. Serena Chu both dated 27th March 2008**

We note from Ms. Serena Chu’s two emails to our clients of 27th March 2008 that the PAC may include the following letters provided by our clients as Appendices to the PAC Report:-

letters provided by Mrs. Lee or her solicitors:-

- (a) our letter to PAC dated 9th January 2008 sent on behalf of Mrs. Lee;
- (b) Mrs. Lee's letter to the PAC dated 3rd March 2008;

letters provided by Ms. Chong:-

- (c) Ms. Chong's letter to the PAC dated 11th December 2007 (excluding the Appendices attached thereto);
- (d) Ms. Chong's letter to the PAC dated 18th December 2007;
- (e) Ms. Chong's letter to the PAC dated 10th January 2008; and
- (f) Ms. Chong's letter to the PAC dated 4th March 2008.

We would like to point out that if the PAC is minded to annex any of our clients' letters to the PAC Report, it is important that the complete and full position is shown to avoid the readers of the Report misunderstanding anything or being misled. Moreover, a full and complete position will only be fair to everyone involved. In this regard, we note the PAC has not proposed to include the following other correspondence between the PAC and our clients:-

correspondence between PAC and Mrs. Lee:-

- 1. PAC's letter to Mrs. Lee dated 30th November 2007;
- 2. Mrs. Lee's letter to the PAC dated 4th December 2007;
- 3. PAC's letter to Mrs. Lee dated 6th December 2007;
- 4. Mrs. Lee letter to the PAC dated 6th December 2007 with enclosures;
- 5. PAC's letter to Mrs. Lee dated 10th December 2007;
- 6. Mrs. Lee's letter to the PAC dated 12th December 2007 with enclosure;
- 7. PAC's letter to Mrs. Lee dated 6th March 2008;

correspondence between PAC and Ms. Chong:-

- 8. PAC's letter to Ms. Chong dated 30th November 2007;
- 9. Ms. Chong's letter to the PAC dated 4th December 2007;
- 10. PAC's letter to Ms. Chong dated 6th December 2007;
- 11. PAC's letter to Ms. Chong dated 10th December 2007;
- 12. Ms. Chong's letter to the PAC dated 12th December 2007 with enclosure;
- 13. PAC's letter to Ms. Chong dated 18th December 2007; and



**Richards Butler in association with Reed Smith LLP**

**To: Clerk to Public Accounts Committee**

**3rd April 2008**

14. PAC's letter to Ms. Chong dated 6th March 2008 with enclosure.


Moreover, we are of the view that this letter of 3rd April 2008 should also be included in the Appendices to the PAC Report to complete the picture.

For your ease of reference, enclosed please find copies of a complete set of all correspondence together with the enclosures between the PAC and our clients/our firm. We have removed the words "*Private and Confidential*" and our clients' address from our clients' letters. In the circumstances, if the PAC decides to include any letter, we stress the need to present the full picture and should be grateful if the PAC could include all correspondence together with the enclosures.

With regard to your request for Chinese translations, we have advised our clients that they are not obliged to provide the same, and trust that the PAC will have ample resources to have the translations prepared.

In the meantime, we reserve all our clients' rights.

Yours faithfully,



**Richards Butler**  
in association with Reed Smith LLP  
(Encl.)

**\*Note by Clerk, PAC:** *The complete set of all correspondence together with the enclosures not attached.*



中華人民共和國香港特別行政區  
Hong Kong Special Administrative Region of the People's Republic of China



立法會

LEGISLATIVE COUNCIL

來函檔號 YOUR REF : ARS/L678-001  
本函檔號 OUR REF : CB(3)/PAC/R49  
電話 TELEPHONE : 2869 9465  
圖文傳真 FACSIMILE : 2537 1204

21 April 2008  
(By fax and post)

Richards Butler in association with Reed Smith LLP  
20<sup>th</sup> Floor  
Alexandra House  
16-20 Chater Road  
Central  
Hong Kong

Dear Sir

### Public Accounts Committee Hearing

I refer to your letter dated 3 April 2008, the contents of which have been considered by the Public Accounts Committee. The Committee has directed me to respond as follows.

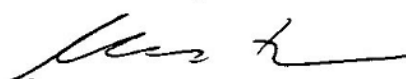
Regarding point (1) of Part (A) of your letter, the Committee notes your comments on my letters dated 10 December 2007 and 6 March 2008 to Mrs Grace LEE. The Committee would like to point out once again that Mrs LEE has quoted my letter of 10 December 2007 out of context for the reasons stated in the second paragraph of my letter of 6 March 2008. There is no question of the Committee changing its position.

In point (2) of Part (A) of your letter, you mentioned the Committee's duty to observe the rules of natural justice and fairness. The Committee would like to reiterate that it has always performed its functions in an open, fair and impartial manner and does not need to be reminded.

In point (3) of Part (A) of your letter, you requested the Committee to provide the Committee's draft Report to your clients before it is released to the public for the purposes stated by you. After careful consideration of the matter, the Committee has decided not to accede to your request. A copy of the Committee's Report will be forwarded to your clients as soon as it has been made public upon its tabling in the Legislative Council.

Regarding Part (B) of your letter, the Committee notes your views on which of the correspondence should be included as Appendices in the Committee Report and will take them into account when deciding the matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Miranda HON', written in a cursive style.

(Ms Miranda HON)  
Clerk  
Public Accounts Committee

**The Hong Kong Tourism Board's (HKTb) response at the PAC Hearing  
Speech by The Hon James Tien, Chairman of the HKTb  
Thursday, 13 December 2007**

I would like to thank the Chairman of the Public Accounts Committee for allowing me to say a few words regarding the Director of Audit's Report No. 49 in my capacity as Chairman of the Hong Kong Tourism Board.

First of all, my gratitude goes to the Director of Audit for his recommendations on various aspects of HKTb's work in the report. As a publicly funded organisation, the HKTb must make prudent use of the funding entrusted with it so as to ensure proper use of public resources, and to maximise the cost-effectiveness of our promotions.

The HKTb has seriously examined and followed up the recommendations in the Audit Report. As of today, we have already implemented 27 items of improvement measures in response to the recommendations in the report, having explained to the HKTb management and sought the approval of the Board. In addition, another 25 items are under review and in the pipeline, which will be implemented in phases according to a concrete timetable. We have arranged the delivery of detailed information on these items for presentation to the Committee today and distribution to Members.

I would like to draw to the attention of Members that the new management of the HKTb, including the four General Managers, Deputy Executive Director and Executive Director, just recently came on board. We need to give them more time to conduct evaluation, consult staff and implement improvement measures so as to strive for even better performance. I will ask the senior management to submit a quarterly progress report on the improvement measures to the Board. Once decisions have been made, we will announce the results of the review as soon as possible.

Regarding the corporate governance issues, which have drawn extensive media coverage, I do wish to take the opportunity to elaborate on this topic so that Members may have a more thorough understanding.

Firstly, on procedures and guidelines, such as procurement policies, business entertainment and business travel, the HKTb already has a set of established guidelines. In response to the recommendations in the Audit Report, the senior management has reminded all staff that they must adhere to the proper procedures and guidelines when carrying out their work.

Secondly, in relation to the performance-based variable payments for Band A staff, we are currently reviewing the mechanism, which will be completed by the end of this year. We will also put in place a new performance appraisal system in 2008-09. In addition to the existing four performance indicators, other indicators, such as management abilities and achievement of functional objectives, will 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 Deputy Executive Director and all General Managers were approved by the Executive Director. Under the current new system, the variable payments of all Band A staff would be subject to the approval of the Remuneration Review Committee of the Board. In the event that a Band A staff fails to fulfil the pre-set criteria, he or she will not be granted the full amount of the performance-based variable payments.

Thirdly, in regard to staff receiving salary exceeding the maximum of their respective salary range, the nine staff in question are in positions of Officers to Senior Managers, with none in General Manager or above. The salaries of those staff whose salaries exceed the maximum of their salary range will be frozen in the next two years. With inflation and salary reviews of other staff in the coming two years, we can assure that the problem will no longer exist after 2009.

Fourthly, on performance measurement, the Audit Report has pointed out that the set of performance indicators for evaluating marketing activities used by the HKTb in the past might not fully reflect the effectiveness of HKTb's work. In fact, our senior management is already reviewing the system and hopes to complete the review by 2008-09. We will continue to consult the travel, academic and related sectors, so as to identify indicators for measuring HKTb's performance even more effectively, and develop strategies that can address the market needs even more fully.

Regarding our mega event strategy, we are currently reviewing our strategy, including the feasibility of organising the events in different formats. We expect to produce a blueprint of the strategic direction by the end of this year. As to the setting of performance indicators for mega events, the HKTb is currently reviewing this, and will consult the academics and travel trade so that the indicators can give better reflection of the effectiveness of HKTb's work. The HKTb targets to complete the review by 2008-09.

Lastly, although this was not mentioned in the Audit Report, I did notice from my previous tenure as Chairman of the then Economic Services Panel in the past nine years that Members have requested for better understanding of HKTb's work. As such, we commit to introduce the new initiative of submitting HKTb's draft estimates for 2008-09 to the Panel on Economic Development in January-February 2008, and seek Members' views of HKTb's proposed activities. After this, we will then submit the budget to the Secretary for Commerce and Economic Development for approval.

Chairman and Members of the Committee, the HKTb will continue to collaborate closely with the Government and trade partners, to maximise Hong Kong's exposure overseas and elevate its image as an international, cosmopolitan city.

Thank you.

**Speaking Note of the Commissioner for Tourism  
At the Public Accounts Committee Meeting  
On 13 December 2007**

Chairman, Members,

Thank you, Chairman, for allowing me to say a few words. I would like to raise a few points for Members' consideration.

2. First of all, the Administration welcomes the recommendations made by the Director of Audit in Chapters 5 and 6 of the Report No. 49. The Administration agrees that there is room for improvement in the corporate governance of the Hong Kong Tourism Board (HKTB). The Administration and the HKTB Board have proposed a number of improvement measures respectively, and we requested the HKTB management to implement as many of them as possible within the 2007-08 financial year to effectively enhance the internal governance of the HKTB. To this end, the Administration will continue to monitor the operation of the HKTB and the progress in implementing various improvement measures for the effective use of public funds.

3. I would also like to take this opportunity to report to Members the improvement measures already implemented by the Administration.

- First, the Secretary for Commerce and Economic Development (SCED) has appointed a date on or before which HKTB is required to submit estimates of its income and expenditure and a programme of its proposed activities for the ensuing financial year for SCED's approval. The date appointed is 28 February of each year;
- Second, the Government has reminded the HKTB to ensure timely tabling of its annual report at the Legislative Council (LegCo). In fact, the HKTB has undertaken to do so by the end of December each year. For the 2006-07 Report, the HKTB will submit it to LegCo next Wednesday, i.e. 19 December; and
- Third, as just pointed out by Chairman TIEN, the HKTB plans to submit its annual budget proposal to the LegCo Panel on Economic Development for information and comments. We fully support this initiative and will co-ordinate with the HKTB and the LegCo Panel to make sure that the annual budget proposal and associated work plan prepared by the HKTB for the next financial year will be submitted to the Panel for information before the Government Budget is announced.

4. The Audit Report also commented on the HKTB's strategy for organising mega events and the means to evaluate the effectiveness of such events. Chairman TIEN has just mentioned that the HKTB is now reviewing its strategies for organising mega events. The Administration believes that mega events help HKTB's promotion of Hong Kong overseas and enrich visitors' experience in Hong Kong. Based on the experience in organising mega events over the past few years, we have requested the HKTB earlier this year to conduct a 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. As for evaluating the effectiveness of mega events, we will actively follow up with the HKTB to establish an objective, reliable and widely acceptable means of evaluation.

5. Mr. Chairman, with the HKTB's support, I report the progress of the above tasks to LegCo and the public.

Tourism Commission

13 December 2007

立法會政府帳目委員會就審計署第四十九號報告書第五及六章聆訊  
周梁淑怡議員發言稿

主席，各位委員：

首先我要感謝政府帳目委員會給我這個機會，就審計署調查旅發局的第四十九號報告書的一些問題作出回應和澄清。我深信各位委員一定會以公平和客觀態度去聆聽我的講話，才作出公正不阿的結論。

我由 2000 年開始被委任為旅遊協會主席，接着於 2001 至 2007 年 3 月 31 日擔任旅遊發展局主席。這幾年來，香港旅遊業經歷重重挑戰，特別 2003 年沙士一疫，對我們的打擊無需我多講，因為疫症肆虐期間的慘痛經歷，和過後的快速復元的興奮，都是身為香港的一份子都深深感受到而畢生難忘的。

對我來說，這七年來能有機會參與推動旅遊業，眼看遊客數字由 2000 年的 1300 萬人次增加到 2006 年的 2530 萬人次，同期內旅遊收益由 640 億增至 1190 億，能夠與旅發局的委員和員工攜手做出了一些成績，能夠與旅遊和所有有關的服務業界為共同目標努力合作，並且感受到經濟的成果，這是我的榮幸。

當我知道審計署進行衡工量值的調查時，我視之為一個對局方的健康檢查，我相信旅發局是個有制度和規矩的機構，當然它與很多其他同類的機構一樣，一定不會完美，亦一定有不足之處，但若能本着一貫不斷改進的精神，就真正能讓這報告發揮最大的正面作用了。

多謝主席。

**\*Note by Clerk, PAC:** Only the Chinese version of this document is available.



**Director of Audit's Report No. 49 – Hong Kong Tourism Board**  
**Summary of Improvement Measures (measures already completed)**

<b>Recommendations in Director of Audit's Report</b>	<b>Improvement measures <u>already completed</u></b>
<b>HKTB Board and Committees</b>	
Membership of the Committees of the Board	1) Staff members of the HKTB senior management have ceased to be members of the Staff & Finance Committee and the Product & Event Committee since September 2007.
Attendance at Board / Committee meetings	2) Records of members' attendance at Board/Committee meetings in the past six months were sent to members in August 2007. Similar reminders will be sent to members every six months thereafter. 3) Included the number and frequency of meetings for individual committees in the Terms of Reference of the respective Committee. 4) To facilitate members' participation in case they are away for business travel or have other engagements, arrange facilities for conference calls during meetings. 5) Invite those members who are away for business travel or have other engagements to submit their written comments.
Rules and proceedings of Board / Committee meetings	6) Formally adopted the rules and procedures for the proceedings of the Board meetings set out in the HKTB Board Members Information Manual in September 2007. 7) Ensure that minutes of the Board/Committee meetings are circulated to members within three weeks of the respective meeting.
Declaration of conflict of interest by Board members	8) All current Board members have already submitted their declaration of interest forms. 9) For those Board members who did not submit their declaration of interest forms, checked and confirmed that there was no situation of conflict of interest on matters approved by them during the periods for which they had not submitted the forms.

<b>Performance measurement and reporting</b>	
Annual Report	<p>10) Include the Key Performance Indicators (KPIs) reported in Controlling Officer's Report, and the actual performance against these indicators, in future annual reports of the HKTb.</p> <p>11) Complete the preparation of the annual report and table in LegCo within nine months after the end of each financial year.</p>
<b>Human resources</b>	
Remuneration & Benefits	12) Abolished the granting of acting allowance since September 2007.
Remuneration & Benefits for Band A Staff	<p>13) Abolished the provision of car parking spaces for Band A staff with effect from October 2007.</p> <p>14) Any benefit beyond the contractual provision or without the approval of the Board will not be provided to staff.</p>
Contract terms for Band A staff	<p>15) All terms and conditions of employment for the current ED and DED have been incorporated into their employment contracts and approved by the Board and the Government.</p> <p>16) The draft employment contracts for the current ED and DED have already been forwarded to the Tourism Commission in advance for necessary action.</p> <p>17) With effect from April 2007, no break clause has been included in the employment contacts of Band A staff.</p>
Staff recruitment	18) Document shortlisting criteria for all recruitment cases.
<b>Other Administrative Matters</b>	
Entertainment	19) Since 1 October 2007, staff members were no longer allowed to claim for reimbursement of expenses on having meals together, even if these were for business purposes.
<b>Trade consultation</b>	
Consultation mechanism	20) Starting from 2007/08, extended the consultation to other trade stakeholders, such as retail and catering industries, as well as relevant academics.
<b>Marketing activities</b>	
Visitor Information and Services Centre in Beijing	<p>21) Reduced the size of the Beijing Visitor Information and Services Centre upon its relocation in June 2007.</p> <p>22) Shelved the idea of establishing a centre in Shanghai. In early 2006.</p>
Consumer website	<p>23) Already enhanced the E-zine subscription form on the DiscoverHongKong website.</p> <p>24) The recently launched 2008 Olympic Equestrian Events micro-site collects more customer information.</p>

<p>Quality Tourism Services (QTS) scheme</p>	<p>25) Increased the number of seats for the service quality training workshops to 1,200 in 2007-08 so as to enhance the customer service skills of merchants' frontline staff.</p> <p>26) Taking proactive actions to recruit high quality visitor accommodation establishments to the QTS scheme. At the same time, will continue to maintain the stringent criteria to uphold the quality assurance of the programme.</p> <p>27) Co-operate with the Home Affairs Department to promote the QTS Visitor Accommodation Scheme and work with potential applicants to enhance their service and facilities.</p>
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**Director of Audit's Report No. 49 – Hong Kong Tourism Board**  
**Summary of Improvement Measures**  
**(measures to be implemented / under review)**

<b>Recommendations in Director of Audit's Report</b>	<b>Improvement measures <u>to be implemented / under review</u></b>
<b>HKTB Board and Committees</b>	
Rules and proceedings of Board/Committee meetings	1) Review the quorum of Board meeting in consultation with Board members.
Attendance at Board / Committee meetings	2) After having consent of the Board, records of members' attendance will be disclosed.
<b>Performance measurement and reporting</b>	
Setting performance indicators	3) To better measure the effectiveness of the marketing activities, HKTB is reviewing the performance indicators in consultation with academics and trade.
<b>Human resources</b>	
Remuneration & Benefits	4) Actively identify ways of resolving those cases where staff members receive salaries higher than the maximum of their respective approved salary range, and ensure that the situation will no longer exist by 2009. 5) Submit a proposal to the Board within this financial year on the future arrangements for the 13 <sup>th</sup> month pay.
Remuneration & Benefits for Band A staff	6) Currently reviewing the mechanism for determining the award of performance-based variable pay for Band A staff 7) Under the new system, variable payments of all Band A staff will be subject to the approval of the Remuneration Review Committee, which comprises of the HKTB Board members. 8) From 2008/09, all Band A staff must submit their performance appraisal reports within one month after the year has ended.
Staff recruitment	9) Specify in the Human Resources Policies and Procedures that panel interview will be used for the recruitment of Senior Manager and above.
<b>Procurement Matters</b>	
Procurement policies and guidelines	10) Review the procurement procedures and submit recommendations to the Board within the current financial year. In addition, invite ICAC to participate in the review.
<b>Other Administrative Matters</b>	
Entertainment	11) Introduce a new policy within this financial year to separate the food and beverage expenses of marketing projects and events from ordinary entertainment expenses. 12) Under the new policy, respective project owners will

	<p>be required to estimate the budget for each activity under a project.</p> <p>13) The new policy will be submitted to the Staff and Finance Committee for approval in the fourth quarter of 2007.</p>
Business travel/procurement of air tickets	<p>14) Introduce a new policy that respective project owners will be required to estimate the budget for business travel for each activity under a project. The new policy will be submitted to the Staff and Finance Committee for approval by the fourth quarter of 2007.</p> <p>15) Re-emphasise in the Financial Policies and Procedures that flight reservation can only be confirmed after approval for the travel request has been obtained.</p> <p>16) Conduct a benchmarking study with comparable organisations on this subject with a view to re-issuing guidelines on business travel.</p>
<b>Trade Consultation</b>	
Consultation mechanism	<p>17) Formalise the consultation and engagement process and conduct regular meetings with the travel and related sectors. After the meetings, submit a summary of the feedback to the respective Committees of the Board.</p>
<b>Marketing Activities</b>	
Mega Events Strategy	<p>18) Currently reviewing the mega events strategy and expect to have a blueprint of the strategic direction by the end of this calendar year.</p> <p>19) Submit to the Product and Event Committee recommendations on the funding allocation for mega events.</p> <p>20) Endeavour to solicit more sponsorship for the International Chinese New Year Night Parade.</p> <p>21) Continue to monitor closely the performance of the mega events and solicit feedback from key stakeholders and trade partners.</p>
Pyrotechnic displays for A Symphony of Lights	<p>22) Explore the possibility of arranging term contract with vendor.</p>
Trade promotions	<p>23) In October 2007, completed the trade familiarisation survey on visits conducted during the Discover Hong Kong Year campaign period from May 2005 to March 2007, which findings will be presented to the Board.</p> <p>24) Starting from 2007/08, the HKTb will formalise the tracking system for the number of tour products developed by trade as a result of the familiarisation visits.</p>
Quality Tourism Services (QTS) Scheme	<p>25) Further increase the seats for the service quality training workshops to 2,400 in 2008/09.</p>



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電話號碼 Tel. No.: 2810 2911  
傳真號碼 Fax No.: 2121 8791

28 February 2008

URGENT By FAX

Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn : Ms Serena Chu)

Dear Ms Chu,

**The Director of Audit's Report on the  
Hong Kong Tourism Board  
Report No. 49, Chapter 5**

Thank you for your letter of 21 February 2007.

The Commissioner for Tourism (CT) was first appointed as a member of the Hong Kong Tourism Board (the Board) on 1 April 2001 by the Financial Secretary (FS), under delegated authority from the Chief Executive (CE) under Section 9 of the Hong Kong Tourism Board Ordinance, Cap. 302 (the Ordinance). Since 1 April 2002, CT has been Deputy Chairman of the Board, appointed by FS under delegated authority from CE, under section 9(5) of the Ordinance. There is no list documenting the duties of CT as the Government representative sitting on the Board.

In common with other members of the Board, CT's duties and role are to pursue the Board's objects as set out in section 4 of the Ordinance. In her role as Deputy Chairman, CT is expected to act in the office of the Chairman if the office is vacant or if the Chairman is incapacitated by injury or illness, or is absent from Hong Kong, in accordance with section 9 of the Ordinance. CT has not been required to act in the office of Chairman since her appointment as Deputy Chairman.

In addition, CT serves as a link between the Board and the Administration in explaining Government's tourism and related policies, and supports the Board in its promotion of Hong Kong as a world class tourist destination by reference to such policies. CT also ensures that the views of the Board will be taken into account in developing these Government policies.

The Secretary for Commerce and Economic Development (SCED) is the Principal Official responsible for tourism. Under the Ordinance and in exercise of authority delegated by CE, SCED approves certain matters governing the Board, including –

- (a) the Board's appointment and determination of the remuneration and other terms of appointment of the Deputy Executive Director (section 8);
- (b) the Board's future financial commitments (section 14A); and
- (c) the Board's programme of activities and estimates of income and expenditure for the next financial year (section 17B).

The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) is responsible for assisting SCED in formulating tourism policies. Under authority delegated to her by CE, she is responsible for appointing an auditor to audit the Board's statement of accounts in respect of each financial year (section 18 of the Ordinance). Also PSCIT is the Controlling Officer for subvention to the Board under the Public Finance Ordinance, Cap. 2.

In exercising these statutory powers, both SCED and PSCIT take into account CT's views, particularly with regard to the Board's budget proposals and its use of public moneys.

From time to time, CT seeks guidance from SCED and PSCIT on matters requiring a policy steer, and conveys such steer to the Board for its reference in shaping its strategies to achieve its objects. She also keeps SCED and PSCIT informed of any major Board matters as appropriate.

Yours sincerely,



( Ms Kinnie Wong )  
for Commissioner for Tourism

cc Secretary for Commerce and Economic Development  
Secretary for Financial Services and the Treasury  
Permanent Secretary for Commerce and Economic Development  
(Commerce, Industry and Tourism)  
Executive Director, Hong Kong Tourism Board  
Director of Audit



商務及經濟發展局局長

香港雪廠街  
中區政府合署



SECRETARY FOR COMMERCE  
AND ECONOMIC DEVELOPMENT

Central Government Offices,  
Ice House Street,  
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Tel : (852) 2810 2178

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18 March 2008

Chairman  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn : Ms Serena Chu)

Dear Ms Chu,

**The Director of Audit's Report on the  
Hong Kong Tourism Board  
Report No. 49, Chapters 5 and 6**

Thank you for your letter of 12 March 2008.

From time to time, the Commissioner for Tourism (CT) reports to me and the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) on important matters relating to the Hong Kong Tourism Board (the HKTb) during our weekly directorate meetings and through other internal communication channels. These HKTb matters have come to CT'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 include matters concerning HKTb's budget proposals and its use of public funds.

For instance, the current CT reported to the then Secretary for Economic Development and Labour (SEDL) on her concerns about the proposed salary increase and break clause arrangement for the senior staff of the HKTb in mid-2006. With SEDL's advice, CT conveyed to the Chairman of the Board and its Staff and Finance Committee our concerns, and raised the same at a subsequent Board meeting. Also, the former CT apprised SEDL of the progress made by the HKTb in taking forward requests for reviewing the effectiveness of HKTb's existing policies, established guidelines and procedures relating to the use of resources and recruitment.

In reporting these important HKTb matters, CT supports PSCIT in performing her role as Controlling Officer for the subvention to the HKTb. Serving as a link between the Board and the Administration, CT offers advice to the Executive Director (ED) of the HKTb on the latest development of tourism policies and infrastructure. This helps 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 is 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 CT and the former Permanent Secretary for Economic Development invariably reminded ED to ensure the prudent use of public resources.

It is incumbent on the HKTb senior management to familiarize themselves and 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. HKTb management and its Board are supported by an internal legal advisor who may tender advice on HKTb's compliance with relevant legislation in discharging its functions. In this regard, the Deputy Executive Director's duty list specifically includes overseeing of the "legal counsel, systems and process management".

The paper (LC Paper No. CB(1)1647/04-05(03)) submitted by the then Economic Development and Labour Bureau (EDLB) to the Panel on Economic Services in May 2005 referred to, inter alia, the HKTb's estimate that the two visitor information and service (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. As the proposed VIS centres would be located in large-scale shopping malls/districts in city centres, the HKTb then 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 is 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 LegCo on the part of the HKTb or the then EDLB.

Yours sincerely,



(Frederick S. Ma)

Secretary for Commerce and Economic Development

cc    Secretary for Financial Services and the Treasury  
      Permanent Secretary for Commerce and Economic Development  
      (Commerce, Industry and Tourism)  
      Commissioner for Tourism  
      Executive Director, Hong Kong Tourism Board  
      Director of Audit



17 March 2008

Dr Hon Philip WONG Yu-hong, GBS  
Chairman  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Dr Wong,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 49)**

**Chapters 5 and 6 on the Hong Kong Tourism Board**

Thank you for your letter of 12 March to the Chief Executive. I am authorised to reply on his behalf.

In accordance with the Public Finance Ordinance, Controlling Officers are responsible and accountable for the proper use of public funds under their control. In this regard, Financial Circular No. 9/2004 : Guidelines on the Management and Control of Government Funding for Subvented Organisations (the Circular) states that Controlling Officers should satisfy themselves that an effective system is in place to safeguard the proper use of public funds. The Circular also provides guidelines to Controlling Officers for managing and controlling government subvention to subvented organisations. Controlling Officers may 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

**中華人民共和國香港特別行政區行政長官辦公室**

**Office of the Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China**

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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 may 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.

While there are instances where the Controlling Officer for the subvention to a statutory organisation is appointed to its governing body, being a Controlling Officer for the subvented organisation, per se, is not the over-riding 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 include statutory requirements, the nature and operation of the organisation, and policy objectives of the Government. Given the wide range of measures that Controlling Officers may use to exercise funding control, it may not be necessary for Controlling Officers to be appointed to the governing body in order to perform such role effectively.

The Commissioner for Tourism (CT) was first appointed as a member of the Hong Kong Tourism Board (HKTb) on 1 April 2001 by the Financial Secretary, under delegated authority of the Chief Executive.

Being the chief government official charged with developing and formulating tourism policies, and having close liaison with the tourism industry, CT is an appropriate officer to be appointed to the HKTb to serve as a link between the HKTb and the Government. Her appointment also ensures that the views of the HKTb will be taken into account in the formulation of Government policies.

CT's duties and role as a member of the HKTb, in common with other members, are to pursue the board's objects as set out in the Hong Kong Tourism Board Ordinance, and to exercise collectively the powers of the board as prescribed in the said Ordinance. These include, 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, CT seeks to ensure that adequate internal procedures and processes are in place to achieve good corporate governance. It is the responsibility of the senior management to ensure compliance and report any exceptions to the HKTb.

From time to time CT reports to, and seeks guidance from, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) on matters concerning the HKTB, including its budget proposals and its use of public funds.

For the reasons set out in the preceding paragraphs, it is not necessary for PSCIT to be a member of the HKTB.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Patrick Li', written in a cursive style.

( Patrick Li )

Acting Private Secretary to Chief Executive

FIN S7/1/78 Pt 6

GOVERNMENT SECRETARIAT  
HONG KONG  
15 September 2004

## FINANCIAL CIRCULAR NO. 9/2004

### **Guidelines on the Management and Control of Government Funding for Subvented Organisations**

(Note : Distribution of this Circular is **Scale C**.  
Directors of Bureaux, Controlling Officers,  
departmental secretaries and all officers dealing  
with government subvention should read it.)

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\_\_\_\_\_ This Circular promulgates revised guidelines (attached) on the management and control of government funding for subvented organisations. The guidelines **replace** the following guidelines issued by the former Finance Branch –

- (a) Notes for Guidance of Medical (Deficiency) Subvented Organisations issued in 1986<sup>1</sup>;
- (b) Notes for Guidance of Medical (Discretionary) Subvented Organisations issued in 1986<sup>1</sup>;
- (c) Miscellaneous Subventions – Guidelines on the Management and Control of Government Subventions issued in 1988; and

/(d) .....

To : Directors of Bureaux  
Controlling Officers

<sup>1</sup> While the two sets of guidelines will no longer be retained by the Financial Services and the Treasury Bureau as central guidelines, Secretary for Health, Welfare and Food and Director of Health have decided to retain them as departmental guidelines for application to organisations under their purview, pending a further review.

- (d) Notes for Auditors and Accountants of Miscellaneous Organisations in receipt of Government Subventions issued in 1990.

2. The revised guidelines remove duplications among the existing sets of guidelines, streamline administrative procedures and rationalise the control framework. They take into account, inter alia, the responsibility of individual Directors of Bureaux in overseeing subvented organisations under their purview, changes in the Government's resource allocation system, the diversity in the subvented sector as well as the need to remove ambiguities and improve user-friendliness.

3. Departmental secretaries are required to re-circulate this Circular to Directors of Bureaux and Controlling Officers once a year, preferably at the start of each estimates season.

4. Please contact Principal Assistant Secretary (Treasury)B at 2810 2286 for enquiries on this circular.

Frederick S Ma  
Secretary for Financial Services and the Treasury



# **Guidelines on the Management and Control of Government Funding for Subvented Organisations**

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The Treasury Branch  
Financial Services and the Treasury Bureau  
September 2004

# **Guidelines on the Management and Control of Government Funding for Subvented Organisations**

## **1. Introduction**

1.1 These guidelines are intended to provide a reference to Directors of Bureaux and Controlling Officers on how to manage and control government funding for subvented organisations to ensure that public money is used properly and cost-effectively.

1.2 These guidelines are administrative in nature. Where they are in conflict with statutory provisions, decisions of the Chief Executive in Council or decisions of the Finance Committee (FC) of the Legislative Council governing the operation and control of a subvented organisation, those provisions or decisions should prevail. Nor do these guidelines override the terms of existing Memorandum of Administrative Arrangements and other tailor-made instruments on the management and control of individual organisations receiving recurrent funding from the Government (as explained in section 15 below).

## **Ambit**

1.3 For the purpose of these guidelines, subvented organisations are organisations receiving grants from the Government on a **recurrent** basis. The grants contribute towards the organisations' operational expenses, in exchange for their services to the public. They may take the form of deficiency grants (provided to honour any Government's undertaking to meet in full the organisation's funding requirement in specific areas) or discretionary grants (provided at the discretion of the Government to support in part or in whole the organisation's funding requirement). The recurrent grant may account for the bulk of the organisation's income or may just be a token contribution/sponsorship forming a small percentage of the organisation's total income.

1.4 Organisations which are only receiving recurrent funding from the Government in the form of membership fees/subscriptions or refunds of rent and rates are not regarded as subvented organisations for the purposes of these guidelines. Likewise, international organisations to which the Government makes a recurrent contribution as a gesture of support are not regarded as subvented organisations. This notwithstanding, Controlling Officers are expected to exercise the usual financial discipline of defining the objectives of and assessing the value for money obtained from proposals involving recurrent funding. The guidelines also do not cover or preclude control mechanisms that may be required when the Government enters into ad hoc project-specific procurement, sponsorship or other forms of agreements with organisations which may or may not themselves be subvented organisations as defined in paragraph 1.3 above.

/1.5 .....

1.5 For reference, the current list of organisations receiving recurrent funding from the Government (other than those mentioned in paragraph 1.4 above) is attached at the **Annex**. Directors of Bureaux are requested to notify the Financial Services and the Treasury Bureau (The Treasury Branch) of additions to/deletions from the list. In the case of additions, Directors of Bureaux should consult the Treasury Branch which would advise on possible read-across implications and the presentation under the “subventions” category in the annual estimates. As a general guideline, the Government should only consider recurrent funding for an outside organisation which is non-profit making and which is delivering a service in the public interest, under objectives and programmes to which the Government may provide input.

## **Role of Directors of Bureaux and Controlling Officers**

1.6 In accordance with section 12 of the Public Finance Ordinance (Cap. 2), Controlling Officers are responsible and accountable for the proper use of public funds under their control. In exercising their statutory authority, and having regard to the diverse nature of subvented organisations, Controlling Officers have the discretion to decide whether any part of these general guidelines should not be applied or applied with modifications to individual subvented organisations (typically for those receiving recurrent subvention through a notional contribution/sponsorship). They can also prescribe additional measures necessary to safeguard public interest. They should, however, see to it that any deviation from the guidelines is justified and publicly defensible. In all circumstances, they should satisfy themselves that an appropriate system of cost control and monitoring is in place for overseeing the spending of public money by subvented organisations, having regard to economy, efficiency and effectiveness in the delivery of public service and use of public funds.

1.7 Relevant Directors of Bureaux with overall policy and monitoring responsibility for subvented organisations under their purview should familiarise themselves with these guidelines. They should satisfy themselves that an effective system is in place to safeguard the proper use of public funds.

## **2. Setting objectives**

2.1 A Controlling Officer, in consultation with the relevant Director of Bureau and subvented organisation as appropriate, should -

- (a) formally define the objectives (with quantifiable results, if possible) that the Government expects to achieve by payment of the subvention;

/(b) .....

***\*Note by Clerk, PAC: Annex not attached.***

- (b) review achievements against those objectives and assess the value for money obtained from the subvention no less frequently than annually; and
- (c) review the objectives themselves no less frequently than once every three years.

2.2 In some cases the objectives of the organisation are set out in the legislation establishing that organisation. Such objectives may, in some cases, be too broad to allow for effective management of the subvention. The Controlling Officer should consider whether more detailed objectives are necessary and, where appropriate and consistent with the relevant legislation, agree with the organisation on specific objectives and review mechanism as suggested in paragraph 2.1 above.

### **3. Budget requirements**

3.1 Prior to the disbursement of funds, the Controlling Officer should require the relevant organisation to produce annually a programme of activities and budget for **subvented programmes** undertaken by the organisation, i.e. programmes fully or partly funded by government subvention.

3.2 The Controlling Officer should agree with the subvented organisation the timing and manner (including whether the budget should be presented on a cash basis or on an accrual basis) in which the budget should be prepared.

3.3 The budget proposed by the organisation should be fully justified by reference to the organisation's objectives and performance indicators in respect of the subvented programmes in the period to which the budget relates. Achievements in the last (i.e. fully audited) year and in the current year, as well as any changes in performance indicators, should also be reported for comparison.

3.4 The budget should contain information on all revenue and expenditure in respect of the subvented programmes. Each revenue and expenditure item should show estimates for the forthcoming year, original and revised estimates for the current year and actual outturn (on audited basis) for the previous year. Any material variations between years should be explained.

### **Revenue estimates**

3.5 Income for the subvented programmes should cover both the subventions from the Government and income from other sources. It should be divided into categories such as government subventions (differentiated between

/recurrent .....

recurrent subvention and one-off capital subvention), fees and charges collected, investment/interest income, donations, etc. The basis for estimating the income from other sources, including the considerations for scale of fees for a subvented service and the assumed rate of return on investment (e.g. interest rate on fixed deposits), where applicable, should be explained. This will help the Controlling Officer assess whether there is scope for the organisation to increase income from other sources and reduce reliance on subvention.

### **Expenditure estimates**

3.6 The Controlling Officer may find it useful to take reference from the Government's methods for analysing and controlling expenditure. The expenditure estimates should give information on the following –

- (a) *Staff expenses:* A breakdown of staff expenses by items should be included. Examples of typical items are salaries, other benefits (including the organisations' contribution to provident funds, contract gratuity, passages, housing allowances, cash allowances, bonuses, etc.) and job-related allowances. Apart from explaining variations in the total expenditure for staff expenses between the years, the organisation should provide supplementary information on staff size and the distribution by staff categories. It should also explain any changes in staff size and in its policy on remuneration packages.
- (b) *Other recurrent expenses:* This covers a detailed list of expenditure of a recurrent nature other than staff expenses. Certain non-recurrent expenditure items costing less than a prescribed amount per item may be regarded as recurrent expenditure for this purpose, in line with general practices on categorisation of recurrent and non-recurrent expenditure. For reference, in 2004-05 Government's non-recurrent expenditure items costing \$150,000 or less are generally counted as recurrent expenditure under the annual estimates. Examples of typical expenditure classifications are –
  - (i) Administration, e.g. fuel, light and power; maintenance of computer systems; cleaning service;
  - (ii) Accommodation, e.g. rent; management/maintenance fees;
  - (iii) Stores and equipment;
  - (iv) Transport, e.g. running expenses of vehicles; travelling expenses; and
  - (v) Training and development.

/(c) .....

- (c) *Non-recurrent expenditure*: This covers items of non-recurrent expenditure each of which exceeds the limit prescribed in (b) above or any single project involving maintenance, repair, re-equipment or re-furnishing costing more than the prescribed amount for the complete project. For example, furnishing and equipping a recreation hall would be regarded as one project.

3.7 An organisation may show depreciation of capital assets in its income and expenditure accounts but such information must be shown separately. The information should not be taken into account in the determination of a level of subvention.

#### **4. Examination of an organisation's budget**

4.1 The Controlling Officer should take into account the organisation's budget (including the level of reserve, if any) when recommending the amount of subvention for inclusion in the annual estimates of the Government. In recommending the amount, the Controlling Officer should be satisfied that the organisation is being operated in a cost-effective manner and that the budget presented (including the amount of subvention requested of the Government) is not excessive. The fact that a subvented organisation has projected a year-end deficit does not oblige the Government to provide additional funding. The relevant Controlling Officer should examine whether the deficit budget is justified and whether the organisation is able to manage the deficit with its reserve (section 8 below). If not, the Controlling Officer should take up with the Director of Bureau to consider a viable and sustainable way forward.

4.2 On the expenditure side, the test is whether a subvented organisation has exercised due diligence to improve the value for money it obtains from the subvention. On matters of staffing, the Controlling Officer should make reference to any prevailing guidelines, currently those issued by the Director of Administration for the control and monitoring of remuneration practices in respect of senior executives in subvented bodies (Ref. CSO/ADM CR 2/1136/01 dated 28 March 2003). The Controlling Officer should also remind the subvented organisation to observe the principle of fairness and transparency in recruiting staff to fill posts under a subvented programme. On other operational costs, the Controlling Officer should assess whether the organisation has actively looked for opportunities to reduce overheads and to enhance productivity, e.g. through more extensive use of information technology. To avoid any hidden subsidy by other sources of government funding, subvented organisations are normally expected to pay full costs for services rendered by government departments.

4.3 The Controlling Officer should remind the subvented organisation to put in place a procurement policy which is transparent, fair and cost-effective, making references to practices in the Government. Emphasis should be placed on the promotion of level playing field and competitive bidding. Procurement by single tender should be fully justified.

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4.4 Subvented organisations should be reminded that if they want to bid for a government contract, they should notify the relevant Controlling Officer overseeing the subventions. The Controlling Officer should guard against subvented resources being siphoned off to programme areas falling outside the approved scope for subvention. To facilitate cost comparison on a level playing field, subvented organisations bidding for government contracts should also bid on the basis of the full (versus subvented) cost of their services.

4.5 On the revenue side, the Controlling Officer should assess whether the subvented organisation has made convincing efforts to raise funds and maximise revenue from sources other than the Government, for example, from charging fees and the sale of products and services, where this is not inconsistent with relevant provisions in law and with approved objectives. To avoid hidden subsidy by government subventions, subvented organisations should charge full costs for services provided on a self-financing basis to other organisations.

## **5. Changes to the budget**

5.1 Without prejudice to relevant statutory provisions, the Controlling Officer should agree with the organisation the extent to which the Director of Bureau or the Controlling Officer will have authority over the budget submitted, e.g. whether, as a condition of subvention, the budget requires approval of the Director of Bureau/Controlling Officer, or whether the budget is only for reference purpose. Where approval is required, and subject to paragraph 6.2 below, the Director of Bureau/Controlling Officer should agree with the organisation the extent to which subsequent variations are allowed, e.g. whether the organisation may vire funds from one expenditure item to another.

5.2 The Controlling Officer should have an understanding with the subvented organisation on circumstances under which the provision of additional subvention may be considered during the year, as well as circumstances under which surplus subvention may be clawed back (notwithstanding any arrangements for the keeping of reserves under section 8 below). Without pre-empting the understanding between the Controlling Officer and the subvented organisation, such adjustments may arise from –

- (a) upward or downward price adjustment in the course of the year to reflect latest decision on annual civil service pay adjustment (it should be noted that the agreement between the organisation and the Controlling Officer will not pre-empt the Financial Services and the Treasury Bureau acting as the Centre from price-adjusting the relevant operating expenditure envelope to reflect civil service pay adjustment, where applicable);
- (b) new or additional services requested by the Government, or curtailment/cessation of agreed services in the course of the year;

/(c) .....

- (c) changes in statutory obligations; and
- (d) unforeseen contingencies beyond the control of the organisation.

5.3 In general, where recurrent subvention is provided on a deficiency basis or in the case of capital subventions granted (section 7 below), any surplus should be returned to the Government.

5.4 The Controlling Officer should make it clear to the subvented organisation that there is no obligation on the part of the Government to bail out an organisation running into a deficit.

## **6. The organisation's budget and Government's annual estimates**

6.1 The amount of subvention appropriated for an organisation each year is reflected in the Government's annual estimates. Currently, recurrent subvention and non-recurrent subvention other than capital subventions are reflected under *Subhead 000 Operational expenses* and appropriate *Non-recurrent subheads* respectively under the Operating Account of the relevant head of expenditure in the General Revenue Account (GRA). Capital subventions (section 7 below) are reflected in the Capital Account of the GRA or the Capital Works Reserve Fund (CWRP) depending on their nature and the amount involved.

6.2 In all instances, the Controlling Officer should see to it that subvention is only used for the purposes for which it is voted. Where the variations to an organisation's approved budget (paragraph 5.1 above) will result in changes to the Estimates of the Government, they can only be permitted with the approval of the FC of the Legislative Council or the relevant authority acting under authority delegated by the FC, in accordance with section 8 of the Public Finance Ordinance (Cap. 2). In this regard, it is noted that some subvented organisations have been using recurrent subventions received from the Government to fund items of a non-recurrent nature. This in itself will not necessarily constitute a change to the Estimates of the Government, as it is accepted that a subvented organisation should be given some flexibility over the use of Government's recurrent subvention in supporting its day-to-day operation. The Controlling Officer and the subvented organisation should, however, observe the following ground rules –

- (a) any recurrent subvention approved specifically for individual recurrent programmes should not be used to fund activities outside the programmes. Such usage will constitute a change to the scope of the approved recurrent subvention for which prior approval of the approving authority is required;

/(b) .....



- (b) the recurrent subvention should not be redeployed to fund capital works items which should fall under the purview of the CWRF. Such redeployment, which will have the effect of changing the Government's global estimates for the GRA and the CWRF, requires the prior agreement of the Financial Services and the Treasury Bureau (The Treasury Branch);
- (c) the recurrent subvention should not be diverted to provide top-up funding for non-recurrent items the estimates for which have already been approved by the FC or the Administration under delegated authority. Such diversion will constitute a change to the approved project estimates for which the Controlling Officer should seek the prior approval of the approving authority; and
- (d) in no circumstances should recurrent subvention be diverted to support items/activities for which the Government has already expressed difficulties in giving policy or funding support for reasons other than lack of funding (for funding support, see also paragraphs 7.2 to 7.5 below).

## 7. Capital subventions

7.1 For the purposes of these guidelines, capital subventions are taken to mean non-recurrent funding for **construction, repairs, maintenance, refurbishment and other works projects or the acquisition/construction of systems and equipment**. Capital subventions may be charged to the CWRF or the capital account of relevant expenditure head in the GRA, depending on the nature and cost estimate of individual projects.

### Resource allocation

7.2 A subvented organisation may apply to the Controlling Officer for new money in the form of capital subventions. The recommendations of the Controlling Officer will be considered by the Financial Services and the Treasury Bureau (The Treasury Branch) under relevant resource allocation exercises.

7.3 As a general rule, the Controlling Officer should ensure that capital subventions (whether new money or recurrent funding redeployed for the purposes) are spent in a cost-effective manner on worthy projects in support of the subvented organisations' stated objectives. Before recommending an application for capital subvention to the Treasury Branch, the Controlling Officer should assess the justification and cost-effectiveness of the project, the capability of the organisation to manage the project and whether recurrent consequences arising from the project can be absorbed by the organisation or the operating expenditure

/envelope .....

envelope for the relevant Director of Bureau. The Controlling Officer should also assess whether the organisation has put in due efforts to contribute to the capital costs of the project. In this regard, the target is for organisations to contribute at least 20% of the project cost where possible.

7.4 The Controlling Officer should note that the resource allocation exercise will only decide whether funding for the project should be earmarked internally within the Government. The allocation of funding will be subject to the approval of the Legislative Council in the context of the annual Appropriation Bill or through separate submissions to the FC/public officers acting under authority delegated by the FC, whichever is appropriate. The Controlling Officer should therefore remind the subvented organisation not to enter into any contractual commitment in respect of the project before funding has been approved by the relevant authority. Subvented organisations will have to take full responsibility for any financial consequences arising from their premature commitment.

7.5 Where the Government has earmarked funding internally on the understanding that a certain amount or percentage of the cost will be met from outside the Government, the Controlling Officer should, before applying to the relevant approving authority for funding, satisfy himself that the subvented organisation has either raised its share of contribution or that the contribution is clearly forthcoming.

### **Disbursement of capital subventions and project monitoring**

7.6 After the capital subvention is approved, the Controlling Officer should release funding on a need basis or based on pre-agreed milestones, subject to the approved capital subvention and scope of works not being exceeded and the payment having been duly certified by the organisation, in consultation with the relevant works departments as necessary. The Controlling Officer should also ensure that the organisation would seek prior approval from the appropriate authority for increases in approved project estimates before committing any government funding. Prior approval from the appropriate authority on changes in the approved scope of works is also required before commencement of the relevant works.

7.7 To safeguard the interest of the Government in the event of default/abortion of subvented projects, the Controlling Officer shall require the subvented organisation to exhaust any non-government funding committed and received before drawing upon the capital subvention approved for the project. The amount of non-government funding expended will not be reimbursed in case the project is cancelled/curtailed for one reason or another.

/7.8 .....

7.8 The Controlling Officer shall require the subvented organisation to submit project progress reports together with updated budget forecasts and outturn income and expenditure statements upon approval of capital subventions and thereafter at quarterly intervals (unless for short-term projects).

### **Technical support**

7.9 The Controlling Officer should, at various stages of the projects, seek the technical advice of relevant professional departments (notably Architectural Services Department in the case of subvented building projects including construction, repair, maintenance or refurbishment works, and Office of the Government Chief Information Officer in respect of IT projects) on the acceptability of the projects for subvention purposes. Areas on which the professional departments may be consulted include project feasibility, design, scope, cost and selection of consultants/contractors, etc.

### **Finalisation of accounts**

7.10 The Controlling Officer should require the concerned subvented organisation to submit final project accounts, as duly certified by the senior management of the organisation and relevant professionals, on completion of a subvented project in a timely manner. The Controlling Officer should assess whether the project has been satisfactorily completed and assess the final cost which qualifies for subvention, in consultation with relevant professional departments as necessary. If it is revealed that the actual project cost is lower than the original project estimate based on which capital subvention is approved, the Controlling Officer should ensure that all surplus capital subvention if already disbursed (i.e. difference between funding disbursed and the actual project cost less amount of outside contribution pledged) is returned to the Government.

## **8. Reserves**

8.1 Subject to the provisions of relevant legislation or funding agreement (including the considerations in paragraph 5.2 above), a subvented organisation may place surpluses<sup>1</sup> arising from subvented programmes into a reserve. The keeping of reserve gives organisations an incentive to economise. It also provides organisations with a buffer to meet contingency. This section does not normally apply to surpluses arising from recurrent subventions which are provided on a deficiency basis or capital subventions (covered by paragraph 5.3 above).

/8.2 .....

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<sup>1</sup> It is noted that the surpluses may come from unspent subvention or unspent income from other sources supporting a subvented programme. For the purpose of this section on keeping reserves, all surplus arising from a subvented programme upon finalisation of the audited account for that accounting year is deemed to be unspent subvention.

8.2 The Controlling Officer should, in consultation with the Financial Services and the Treasury Bureau (The Treasury Branch), set an appropriate reserve ceiling for funds so carried forward. The objective is to prevent an organisation from accumulating more than is necessary, at the expense of other worthy causes which may have been supported by public funds had the “underspending” in subvention been returned to the Government. The reserve ceilings may differ between organisations, but they should be set at reasonable levels having regard to the susceptibility of the concerned organisations to fluctuations in income and expenditure and the demand for time-limited funding from time to time. For transparency, Controlling Officers are advised to communicate the level of reserve to the Legislative Council which approves the appropriation of funds for the relevant subvention.

8.3 Any surplus in excess of the agreed reserve ceiling should be returned to the Government (by way of offsetting from next year’s subvention or returning to General Revenue), or dealt with in accordance with arrangements agreed between the Controlling Officer and the organisation.

8.4 The Controlling Officer should agree with the subvented organisation the general ambit of a reserve accumulated from underspending on subvented programmes, and the authority of the organisation over the use of the reserve. Generally the reserve should be ploughed back into programmes which are normally supported by public funds. Where the use of reserve would generate additional financial consequences for the Government, the organisation must seek the prior agreement of the Controlling Officer before committing to spend from the reserve.

8.5 To facilitate monitoring and control, a subvented organisation should keep separate accounts of its reserve accumulated from underspending on subvented programmes (to which this section applies) and any reserve attributable to surplus income generated from self-financing activities.

## **9. Treatment of other income**

### **Fees and charges**

9.1 The Controlling Officer should agree with the subvented organisation the principles and conditions governing the administration of fees and charges in support of a subvented programme, e.g. whether the introduction and revision of fees and charges require the prior approval of the Controlling Officer and to what extent subvented organisations are allowed to deploy the income at their discretion. As a general rule, when operating income-generating activities in support of a subvented programme, subvented organisations should ensure that the activities are in line with relevant government policies, the objectives of the subvented programme and relevant legal requirements. In no circumstances should the subvented programme be compromised.

**/Donations .....**

## **Donations**

9.2 The Controlling Officer should agree with the subvented organisation the circumstances under which donations may be accepted and retained. The acceptance of donations by a subvented organisation for running services/undertaking capital projects may have recurrent/time-limited financial implications. The Controlling Officer should make it clear to the subvented organisation that such financial consequences have to be borne by the organisation from its available resources, unless the organisation, before acceptance of the donations, has obtained the Controlling Officer's agreement to provide additional funding for the purposes.

9.3 In some cases, the donors have not specified the uses of the donations. For organisations which run both subvented and non-subvented programmes, as well as organisations running solely subvented programmes funded on different bases, the application of the non-designated donations should be agreed with the Controlling Officer. In the discussions, the Controlling Officer should strike a balance between the desirability of applying these non-designated donations to subvented programmes with a view to reducing the organisations' reliance on public funding and the expectation of the subvented organisations for having a say over donations which they have solicited. The Controlling Officer should guard against any consequential reduction in the level of subvention becoming a disincentive for the subvented organisations to solicit donations.

## **10. Submission of audited accounts**

10.1 The Controlling Officer should require each subvented organisation to submit, before a prescribed date, the audited annual financial statements of the organisation (which should include balance sheet, income statement, cash flow statement, and accounting policies and explanatory notes), and an audited annual financial report showing –

- (a) the income and expenditure of the organisation's subvented programmes (the Controlling Officer to decide whether there should be one consolidated income and expenditure analysis for all subvented programmes or separate analyses for each distinctly separate subvented service); and
- (b) where applicable, the movements in the reserve of unspent subvention retained and assets acquired under the subvented programmes.

/10.2 .....

10.2 The annual financial statements and annual financial report in paragraph 10.1 above should be certified by the Chairman of the subvented organisation or equivalent and audited by professional accountants registered under section 22 of the Professional Accountants Ordinance (Cap. 50) in accordance with standards issued by the Hong Kong Institute of Certified Public Accountants (formerly called the Hong Kong Society of Accountants).

10.3 The detailed requirements and presentation of the annual financial report to be submitted may be determined by the Controlling Officer taking into account any specific requirements and, where necessary, in consultation with the Director of Accounting Services.

10.4 The auditors' report accompanying the annual financial statements and annual financial report submitted should contain an expression of opinion as to –

**On the annual financial statements of the subvented organisation –**

whether they give a true and fair view of the state of affairs of the subvented organisation as at the balance sheet date and of its financial result and cash flows for the year then ended.

**On the annual financial report of the subvented programme(s) being audited –**

whether the subvented organisation has complied with, in all material respects, the requirements set by the Government (including the requirements to keep proper books and records and to prepare annual financial report of the subvented programme(s) in accordance with the books and records) and all the terms and conditions of the subvention as specified in the relevant subvention guidelines and other relevant documents.

10.5 The subvented organisation should agree with the auditors the terms of the audit engagement, such as the objectives, scope and form of report, etc. To avoid misunderstanding, the agreed terms should be recorded in an engagement letter.

10.6 The Controlling Officer should remind the organisation to provide the auditors with all the relevant subvention guidelines and other relevant documents.

**/11. ....**

## **11. Access to records and accounts**

11.1 The Controlling Officer should ensure that he or she and the Director of Audit will have unhindered access to the records and accounts of a subvented organisation, as a condition of subvention if not already provided by law. When so requested in this connection, the organisation will be obliged to explain to the Controlling Officer and the Director of Audit any matters relating to the receipt, expenditure or custody of any money derived from public funds.

11.2 In accordance with the scope of value for money audits agreed between the Public Accounts Committee of the Legislative Council and the Director of Audit and accepted by the Administration, the Director of Audit may carry out value for money studies in any organisation which receives more than 50% of its income from public moneys. The Director of Audit may also, by prior agreement between the Controlling Officer and a subvented organisation as a condition of subvention, carry out similar studies in organisations which receive 50% or less of their income from public moneys.

## **12. Anti-corruption procedures**

12.1 The Commissioner of the Independent Commission Against Corruption (ICAC) may examine the management and control procedures in a subvented organisation with a view to providing corruption prevention advice to the executive committee. The organisation is expected to heed the advice given by the ICAC and to take such remedial actions as are appropriate.

12.2 It is the responsibility of each subvented organisation to ensure that its management and staff conform with the requirements of the Prevention of Bribery Ordinance (Cap. 201).

## **13. Self-financing activities**

13.1 Some subvented organisations run self-financing activities without any subvention from the Government. The organisation should keep a separate set of accounts for these activities and ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind.

## **14. Payment of subvention**

14.1 The Controlling Officer should avoid disbursing an annual subvention in one go, unless this is essential for meeting the operational needs of the organisation. The subvention should normally be paid by instalments, e.g. monthly or quarterly, having regard to the cashflow requirements of the subvented organisations, the amount of funding involved, etc.

**/15. ....**

## **15. Memorandum of Administrative Arrangements and other instruments**

15.1 The Controlling Officer should let the organisation receiving recurrent funding from the Government know how these and other guidelines would be applied in their cases. As a matter of good management, Directors of Bureaux or the relevant Controlling Officers should preferably enter into a Memorandum of Administrative Arrangements or a similar instrument with each organisation receiving recurrent funding from the Government under their purview. Such tailor-made instruments should, having regard to these guidelines, set out the responsibilities of all parties in the delivery and monitoring of government-funded services and capital projects.

15.2 These guidelines do not override the terms of **existing** Memorandum of Administrative Arrangements and other tailor-made instruments on the management and control of individual organisations receiving recurrent funding from the Government, e.g. Code of Aid for aided schools, Lump Sum Grant Manual for welfare services, UGC Notes on Procedures. Relevant Directors of Bureaux and Controlling Officers are nonetheless expected to review the existing memoranda and other instruments periodically and to take account of these guidelines in the next review.

The Treasury Branch  
Financial Services and the Treasury Bureau  
September 2004



商務及經濟發展局局長

香港雪廠街  
中區政府合署



**SECRETARY FOR COMMERCE  
AND ECONOMIC DEVELOPMENT**

Central Government Offices,  
Ice House Street,  
Hong Kong

Tel No. 2810 2178

Fax No. 2147 3873

26 March 2008

Chairman  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn : Ms Serena Chu)

Dear Ms Chu,

**The Director of Audit's Report on the  
Hong Kong Tourism Board  
Report No. 49, Chapter 5**

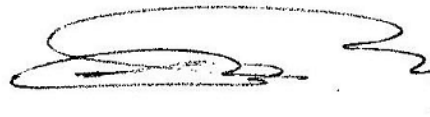
Thank you for your letter of 19 March 2008.

Since the establishment of the Hong Kong Tourism Board (the Board) in 2001, the Government has not entered into any tailor-made instrument with it for exercising funding control.

As provided under the Hong Kong Tourism Board Ordinance (Cap 302), the Commissioner for Tourism (CT), in common with other members of the Board, are to pursue the Board's statutory objects, and to exercise collectively the powers of the Board as prescribed in the said Ordinance. These include, amongst other, drawing up the Board's budget and ensuring the proper use of public funds allocated to the Board. Together with other members of the Board, CT seeks to ensure that adequate internal procedures and processes are in place to achieve good corporate governance. In performing these functions, CT shares her views with the Board, its Committees and the Management on the Management's proposals and its implementation progress, based on the information provided by the Management. It is the responsibility of the senior management to ensure compliance and report any exceptions to the Board.

From time to time, CT reports to, and seeks guidance from, the then Permanent Secretary for Economic Development and Labour (Economic Development) and presently the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) on matters concerning the Board, including its budget proposals and its use of public funds. In so doing, CT supports the Permanent Secretary concerned in performing her role as the Controlling Officer for the subvention to the Board.

Yours sincerely,



( Frederick S. Ma )

Secretary for Commerce and Economic Development

cc Secretary for Financial Services and the Treasury Fax : 2537 1736  
Permanent Secretary for Commerce and Economic Development  
(Commerce, Industry and Tourism) Fax : 2869 4413  
Commissioner for Tourism Fax : 2121 8791  
Executive Director, Hong Kong Tourism Board Fax : 2807 6411  
Director of Audit Fax : 2824 2087

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49

17 December 2007

By Hand

Public Accounts Committee

Legislative Council

G/F., Legislative Council Building

8 Jackson Road, Central HK

Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 17 December 2007 and would like to provide the following additional information:

- a) summary of Mrs Grace Lee's employment history with the Hong Kong Tourist Association (HKTA)/ Hong Kong Tourism Board together with attachments as indicated in the summary. Please refer to attachment 16 ie Board minute dated 5 September 2002 for record of Board meeting considering her promotion to Deputy Executive Director. We cannot find any other minutes of meetings considering her prior promotion.
- b) Annual premium of HKTB medical & dental insurance scheme for FY04/05 and FY05/06.
- c) HKTB has no record showing that Ms Clara Chong was acquainted with Mrs Grace Lee before Ms Chong joined in 2001. We attach Mrs Grace Lee curriculum vitae prior to her joining HKTA we have in file for your reference.

All of the above are personal data and we appreciate the same not be included in the appendix of the PAC report and identities of individual mentioned in those documents or information be masked. We are not copying any other parties except Mrs Grace Lee the enclosures for the same personal data confidentiality reason.

Thank you for your attention.

Yours sincerely

Mrs Daisy Lam  
Deputy Executive Director  
Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (with enc)

**\*Note by Clerk, PAC:** (a) *Attachments 1 to 18 not attached.*  
(b) *Mrs Grace LEE's curriculum vitae prior to her joining the Hong Kong Tourist Association not attached.*

### Employment History of Mrs Grace Lee

Date Join Company: 8 May 1986

Date Left Company: 1 Jun 2007

Effective Date	Description	Attachement
8-May-86	Appointment to Internal Auditor with Job Description	1 & 2
1-Jul-87	Appointment to Management Accountant with Job Description	3 & 4
10-Dec-87	Appointment to Chief Accountant with Job Description	5 & 6
1-Oct-91	Appointment to Senior Manager, Finance & Planning with Job Description and PMS	7, 8 & 9
1-Apr-94	Appointment to General Manager, Finance & Administration with PMS	10 & 11
1-Jan-96	Appointment to Finance & Administration Director with Job Description and PMS	12, 13 & 14
16-Aug-01	Organization Restructuring - Job Description for Director, Corporate Support	15
1-Jan-03	Appointment to Deputy Executive Director with Job Description and Board Paper	16, 17 18 & 19

## JOB DESCRIPTION

**Location** : HKTb – Hong Kong      **Approval** : \_\_\_\_\_  
(Incumbent)

Establish short to long-term strategies to establish an efficient operating environment to the organization and direct delivery of corporate support and high-level commercial direction to all of the departments and offices around the world, which enables them to achieve their strategic objectives on time and within budget, in a cost efficient environment. Lead the ongoing development of best practice, business process across all departments and overseas offices.

As Deputy Executive Director take on the operational management of the organization, perform executive oversight of overseas offices and deputize the Executive Director as and when necessary. Be one of the key External Representatives for the HKTB.

Develop and maintain strong working relationships with government bodies including the Tourism Commission, ESB to facilitate operational support, negotiating annual budgets and act as the operating focal point for the HKTb and also key trade associations.

Lead and direct ad-hoc projects that may arise from time to time.

As the Secretary to the Board, support with full “company secretarial” services: ensure the Board operates within corporate governance and interpret the board discussions into succinct minutes, identify items of a procedural nature as well raise operational matters that require the attention and review of the Board.



# HONG KONG TOURISM BOARD

## Dimensions

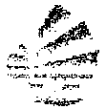
- HKTB's total income including subvention \$534.03 million
- HKTB's total expenditure \$534.03 million
- Ad-hoc project funding \$20 million
- 13 Worldwide offices with 94 staff
- 6 Representative offices
- 316 headcount worldwide
- number of direct reports – 7 and dotted line from 7
- number of indirect reports – 41

## Internal Relationships

Reports to	Executive Director
Direct Reports	General Manager, Human Resources Senior Manager, Systems Senior Manager, Business Process Management Manager, Financial Management Manager, Business Performance Monitoring Legal Counsel Manager, Tourism Orientation Programme Regional Directors dotted line reporting relationship
Other:	Audit Committee Staff & Finance Committee Task Forces and Committees set up from time to time

## External Relationships

- Government bodies (primarily Tourism Commission, Economic Services Bureau and other Bureaux having a regard for tourism)
- External Auditor – for annual audit of financial accounts and internal control reviews
- Government Internal Audit – review of control processes and overall adherence to the Boards Ordinance
- Trade bodies and associations
- ICAC – liaison point for regular reviews
- Media (on functional issues)
- Ex-officio on trade associations bodies – BBTS, HARTCO
- Training Boards of educational / training institutions



# HONG KONG TOURISM BOARD

## Context of the Position

The position of Deputy Executive Director is comprised of three main threads: Head of Operational Support, Executive oversight of overseas marketing offices and as one of the key External Representatives for the HKTb.

Operational support comprises finance, legal, business efficiency, day-to-day control of internal audit and Human Resource management. This support provided by the sections of the department provide the usual operational platform for the organization to function. The incumbent, on the other hand, is far more integrated into the activities and decision-making process of the other departments. Utilizing the very deep and broad knowledge base of the incumbent, the HKTb departments have a very strong partner in the incumbent who provides high-level commercial and legal direction to the marketing activities. That knowledge base comprises strong working relations in various government departments, and the ability to gain action, as well as working relationships with a vast number of organizations, both in and outside the tourism industry, in Hong Kong.

The operational support portfolio under the incumbent's direction and management include human resource management, financial management, accounting systems and control, budgetary control, business performance monitoring and reporting, IT systems support and control, business process management, office administration, legal matters, insurance matters, board secretariat matters, compliance with HKTb Ordinance and all regulations. The incumbent is accountable for delivering the full range of corporate and commercial support to the various marketing departments and overseas offices of the HKTb. To ensure that the support services are in place on time to meet the future needs of the HKTb the incumbent must take a long term strategic view for developing the services and identify additional services which will be required.

The Legal Counsel forms part of the incumbent's goalkeeper role, whereby all commercial documents are vetted for exposure of the HKTb by either in-house counsel or external depending on the nature of the item. Similarly the need to monitor the performance of the strategic marketing activities and budgetary control round out this important goalkeeper role – a role that permits the Executive Director to focus on the internal and external marketing programs. Given that the Executive Director is out of Hong Kong for a large proportion of the time, the incumbent is deputizing for much of the time and needs to drive the ongoing operations. As DED, the incumbent is required to represent the HKTb on a number of professional and trade associations to advocate for the HKTb and identify key areas of concern facing those bodies.





## HONG KONG TOURISM BOARD

The incumbent maintains strong working relationship with a number of government bodies so as to smooth the operations of the Board. This includes driving the budget annual process and also shaping the project based budgets in a way that is more agreeable to the reviewers to ensure successful authorization.

The incumbent ensures that the financial support is in place as and when it is needed. With almost half of the budgeted expenditure taking place overseas there is a clear need to hedge the FX exposure. Also, with funds on hand the incumbent establishes the ability to invest in proscribed financial tool after gaining acceptance and authority from the appropriate government departments.

There is a need to be fully conversant with the operating environment of HKTb (a Government subvented organization) as well as the rules, regulations and policies that govern the HKTb. As the HKTb operates in a global environment, the incumbent needs to be conversant with the rules and regulations of the countries that the HKTb operates in.

As the Secretary to the Board, the incumbent needs to work closely with the Chairman and Board members on matters that concern the Board, preparation of Board meetings and conduct follow up action and to facilitate Board members to discharge their duties. As Head of Operations, the incumbent is well placed to be able to deal with high level information needs from the Board and its members.

### **Main Accountabilities and Responsibilities**

#### **Deputized Head of HKTb**

1. As Deputy Executive Director, maintain the overall operational management of the HKTb during the absences of the Executive Director by taking an executive oversight of ongoing marketing operations as well as represent the HKTb at external functions and events etc.

#### **Corporate Governance**

2. Act as the main point of contact with Government on HKTb's governance matters including such matters as yearly application of subvention, policies and procedures on the use of subvention, operational guideline of HKTb to operate within the framework of a subvented organisation.
3. Ensure that all corporate activities and operations are carried out in compliance with HKTb Ordinance, corporate governance, laws and regulations as well as best business practices by developing and monitoring policies and procedures that most aptly ensure adherence.



# HONG KONG TOURISM BOARD

## External Relationships

4. Ensure that the image and strategic business position of the HKTB is maintained by representing the views of HKTB on various committees set up by external parties including the travel trade, training and education institutions, professional bodies, the government and agencies.
5. Be one of the key External Representatives for the HKTB.

## Executive oversight of International Offices

6. Ensure that the overseas offices operate as a cohesive part of the HKTB and maximize the contribution to achieving the strategic business plan by directing and monitoring their performance against planned results and assess the need for restructuring/reshaping/re-staffing to ensure goal achievement.

## Operational Efficiency and Effectiveness

7. Ensure the operational efficiency and effectiveness of the HKTB is on par with world best practice through benchmarking and by directing regular reviews of all aspects operations, assessing centralized vs. decentralized processes (finance, control, legal, tendering, supplier management, etc) and define new standardized processes and guidelines which streamline the efficiency of the HKTB

## Develop Strategies, Operational Policies and Procedures

8. Develop strategies, policies and operational procedures for the finance, legal, systems, internal audit, corporate support functions to create an environment which ensures achievement of the Board's global marketing strategies by analyzing the strategic business plan and marketing plans of HKTB.

## Financial Control and Budget Development and Monitoring

9. Set policies and guidelines on the use of financial resources. Define the guidelines for the preparation of budgets to ensure a cohesive approach and regularly monitor the use of resources during the year and pursuing swift rectification of exceptions that arise during the year.

## Business Performance Monitoring

10. Monitor the overall performance of the organisation against plan and the performance of business units against corporate policies and procedures. Recommend corrective actions as appropriate.

## Human Resource Management

11. Formulate and direct implementation of strategies for attracting, retaining and developing the necessary human capital and organizational design, in the HK and overseas offices, through reward policies, performance management and training programs to meet the short to long term strategic objectives of the Board.



## HONG KONG TOURISM BOARD

Advisory and Gatekeeper role for Commercial issues

12. Ensure that all commercial transactions and contracts safeguard the interests of the HKTb by establishing strong internal control policies, reviewing all commercial contracts for potential liability and providing other departments with high level technical advice on finance and commercial considerations.

Industry Training Programs

13. Represent the HKTb on various tourism training boards of educational institutes to provide input to academia on the manpower needs of the industry, particularly in terms of service quality.

14. Develop strategy and direct Industry Training Programs initiated by HKTb.

Oversee the operation of trade associations subsidised by HKTb

15. Approve the business plan of the trade associations and monitor the deliverables throughout the year.

Lead and direct ad-hoc projects initiated by Government from time to time

16. Develop strategy and lead the implementation of ad-hoc projects initiated by Government or HKTb from time to time.

### **Job Requirements :**

- Extensive financial and management experience on a corporate level in a multi national organization
- Professional accounting qualification
- Experience in overseeing the general operations of a multi national organization
- Experience in managing the resources of an organization across many countries
- Seasoned professional with at least 15 years experience in overseeing the multi-jurisdiction regulatory and compliance functions of an organization which has offices throughout the world
- Highly conversant with government financial management system and procedures
- Sound understanding of the dynamic drivers operating the travel and tourism-related industry in order to be able to represent the HKTb to the trade associations.
- Conversant with company secretariat matters
- Excellent analytical, interpersonal and communication skills to be able to persuade others, at all levels, to take on board changes in processes and thought.

<b>Premium of Medical and Dental Insurance Plans</b>			
		<b>2004-05</b>	<b>2005-06</b>
<b>Category</b>		<b>Annual Premium</b>	
<b>Executive Medical Plan (including Dental)</b>		<b>HK\$</b>	<b>HK\$</b>
Ex-ED	Staff, Spouse & 1 Child (a single amount quoted for the 3 persons)	84,921	92,483
<b>Standard Handbook Medical Plan</b>			
Band A	Staff (Male)	5,078	5,424
	Staff (Female)	5,728	5,944
	Dependent - Spouse (Male)	6,244	6,672
	Dependent - Spouse (Female)	6,894	7,192
	Dependent - Child	6,244	6,672
Band B	Staff (Male)	3,814	4,032
	Staff (Female)	4,464	4,552
	Dependent - Spouse (Male)	4,692	4,962
	Dependent - Spouse (Female)	5,342	5,482
	Dependent - Child	4,692	4,962
Band C	Staff (Male)	2,994	3,146
	Staff (Female)	3,644	3,666
	Dependent - Spouse (Male)	3,684	3,870
	Dependent - Spouse (Female)	4,334	4,390
	Dependent - Child	3,684	3,870
Band D	Staff (Male)	2,716	2,818
	Staff (Female)	3,366	3,338
	Dependent - Spouse (Male)	3,340	3,466
	Dependent - Spouse (Female)	3,990	3,986
	Dependent - Child	3,340	3,466
<b>Standard Handbook Dental Plan</b>			
Band A to D	Staff	400	380
	Dependent - Spouse	400	380
	Dependent - Child	360	380

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
 16 January 2008  
By Email and By Hand  
 Public Accounts Committee  
 Legislative Council  
 G/F., Legislative Council Building  
 8 Jackson Road, Central HK  
Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 14 January 2008 and would like to provide information as follows:

(a) (i) The annualized 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 FY03/04, representing a significant upsurge by 40% from 10% to 14%. The actual overall staff turnover rate for FY04/05 turned out to be 16% and even higher in subsequent years, further demonstrating the accurate observation of the upward trend. The staff turnover rates of FY01/02 to FY06/07 are summed up below for your easy reference:

FY01/02	13%
FY02/03	15%
FY03/04	10%
FY04/05	16%
FY05/06	25%
FY06/07	21%

(a) (ii) A quarterly staff turnover record (breakdown by posts and bands) of staff who left HKTb in 2004 is attached.

(b) There is actually no change to the organization chart nor the duties and responsibilities of the Executive Director and the Deputy Executive Director up to present. However, the current Deputy Executive Director has been tasked to implement a series of improvement measures according to the recommendations of the Director of Audit's report.

(c) The requested documents are attached. We would like to clarify that the performance assessment cycle of the DED was on financial year basis but the payment cycle of incentive payment to the DED was on calendar year basis.

(d) The basis of the Remuneration Review Committee (RRC)'s decision for granting the ED the variable payment (VP) in full in 2004-2005 and 2005-2006 has been set out in the "record of RRC Meeting on 22 March 2006 regarding the ED's VP for the period 19/3/2004 to 18/3/2005" and the "RRC Minutes of Meeting dated 30 November 2006" which has already been submitted with a list of documents to the PAC by courier service on 10 December 2007. The paper on the ED's performance mentioned in paragraph 2 of the minutes of the RRC meeting held on 30 November 2006 is enclosed in the aforesaid documents and the paper is entitled "Performance Report of ED for the period 19/3/2005 to 18/3/2006". We retrieve and attach the relevant documents again for the PAC's easy reference.

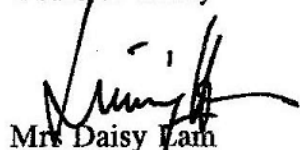
(e) While the principle for the proposed performance management system for Band A staff (including the respective weighting proposed for Key Performance Indicators, KSFs and competency assessment) has been endorsed by the Staff and Finance Committee on 10 January 2008, the management was tasked to further consult the Band A staff on the proposed mechanism before seeking for the HKTB Board's approval in March 2008. As such, we regret the details are not yet ready for submission at this juncture.

The above may include personal data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals mentioned in those documents or information be masked.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

Thank you for your kind attention to our request.

Yours sincerely



Mrs Daisy Lam  
Deputy Executive Director  
Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

*\*Note by Clerk, PAC: Attachments in items (c) and (d) not attached.*

**Staff Turnover Record from 1/1/04 to 31/12/04**

**Q1 2004**

Department	Title	Band
PTND-QTS	Executive	C
PTND-QTS	Officer	D
BDEV	Project Manager	B
PTND-QTS	Manager	B
OA	Executive	C
SM	Senior Manager	B
CONM	Manager	B
ITHR	Manager	B

**Q2 2004**

Department	Title	Band
LEGCON	Legal Assistant	C
FNMG	Clerk	D
MCOM	Executive	C
VS	Executive	C
PTND-QTS	Executive	C
EDM	Senior Executive	C
MCOM	Executive	C
CCPR	Manager	B

**Q3 2004**

Department	Title	Band
PTND-QTS	Manager	B
TRDM	Senior Executive	C
ITHR	Assistant Manager	C
TRDM	Assistant Manager	C
PTND-QTS	Officer, QTS Merchant Relationship Dev	D
TRDM	Secretary	D
PTND-QTS	Officer, QTS Merchant Relationship Dev	D
TDEV	Senior Executive	C

**Q4 2004**

Department	Title	Band
TRDM	Manager	B
CCPR	Assistant Manager	C
SPLG	Analyst	C
VS	Executive	C
VS	Executive	C
CMC	Senior Executive	C
CMC	Senior English Editor	C
CMC	Senior Executive	C
CMC	Executive	C



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香港下亞厘畢道  
中區政府合署

Government Secretariat  
Central Government Offices  
Lower Albert Road  
Hong Kong

本函檔號 Our Ref.: TC CR 4/2091/07  
來函檔號 Your Ref.: CB(3)/PAC/R49

電話號碼 Tel. No.: 2810 2911  
傳真號碼 Fax No.: 2121 8791

24 January 2008

By fax

Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn : Ms Serena Chu)

Dear Ms Serena Chu,

**The Director of Audit's Report on the  
Hong Kong Tourism Board (HKTB)  
Report No. 49, Chapter 5**

Thank you for your letter of 19 December 2007.

The Administration and HKTB had not agreed any timeframe to guide the submission and approval of 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, we had followed the same steps in examining 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. For 2003-04, 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.



HKTB's subvention forms part of the overall Government Budget which is subject to vetting and approval of the Legislative Council through the Appropriation Bill and the Vote-on-account Resolution. Section 17A of the HKTB Ordinance (Cap 302) provides 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 HKTB included in the Government Budget follows HKTB's broad heads of income and expenditure and proposed activities for the ensuing financial year as agreed by the Administration. These in turn form the basis of HKTB's programme of proposed activities and estimates of its income and expenditure for the purpose of section 17B of the HKTB Ordinance.

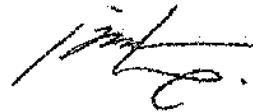
With delegated authority from the Chief Executive, the former Secretary for Economic Development and Labour gave approval of HKTB's programme of proposed activities and estimates of its income and expenditure under Section 17B(1) of the HKTB Ordinance after the enactment of the Appropriation Bill, to take into account the approved subvention and elaboration by 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.

In response to Director of Audit's comments, we have, in consultation with HKTB, introduced a new modus operandus in September 2007 for the implementation of section 17B(1). Specifically, the Secretary for Commerce and Economic Development (SCED) has appointed a date for 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. We have agreed with HKTB to advance the process of preparing and examining HKTB's programme of proposed activities and estimates of its income and expenditure. The new modus operandus will allow SCED to approve 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 does not specify a time within which approval is to be given, we shall endeavour to complete the

approval process by 1 April. This approval will, however, have to be made conditional upon LegCo's approval of the Appropriation Bill which includes the subvention for HKTb.

As to the Administration's indication during the passage of the HKTb Bill to appoint members from the Consumer Council and frontline workers of the tourism industry to HKTb, we have submitted the attached information note on our follow up action to the Legislative Council Panel on Economic Development.

Yours sincerely,



( Ms Kinnie Wong )  
for Commissioner for Tourism

cc Secretary for Commerce and Economic Development  
Secretary for Financial Services and the Treasury  
Permanent Secretary for Commerce and Economic Development  
(Commerce, Industry and Tourism)  
Executive Director, Hong Kong Tourism Board  
Director of Audit

## **For information**

### **Legislative Council Panel on Economic Development**

#### **Appointment to Hong Kong Tourism Board**

#### **Purpose**

This paper informs Members of the current arrangement regarding the appointment of representative of the Consumer Council (CC) and frontline worker of the tourism industry to the Hong Kong Tourism Board (HKTb).

#### **Background**

2. In 2001 when the Legislative Council scrutinized the Hong Kong Tourist Association (Amendment) Bill 2001, in the light of the views expressed by the Bills Committee, the Administration indicated its intention to appoint to HKTb representatives of the CC and frontline workers of the tourism industry.

3. Upon enactment of the Hong Kong Tourist Association (Amendment) Ordinance in 2001, the Administration appointed to HKTb the then Chairman of the CC and the then Chairman of the Hong Kong Tourist Industry Employees' General Union of the Federation of Trade Union. The former retired from the CC in September 2005 but his term of appointment in HKTb only expired recently in October 2007. The latter was not re-appointed after his tenure expired in November 2004.

4. At the hearing of the Legislative Council's Public Accounts Committee on 13 December 2007 on Chapter 5 of Audit Report No.49, members expressed concern about the above situation. The following paragraphs set out the Administration's considerations and the appointment arrangements.

## **Arrangements for Appointment**

5. In considering appointments to HKTb, the Administration takes 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 are appointed for effective operation of the Board.

6. Due to the different cycles of appointments to HKTb and the CC and the fact that the appointment is in their personal capacity, it is difficult to maintain cross-membership between HKTb and the CC at all times. We have instead adopted a flexible approach 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 HKTb in October 2007 (as stated in paragraph 3 above), the Administration appointed former Vice-chairman of the CC to fill the vacancy. Such arrangement seeks to ensure adequate expertise and experience in consumer protection in the Board's membership.

7. As regards frontline tourism worker, as the job types involved are very diversified, covering tour guides, travel agencies and airlines workers, and hotel concierge, etc, appointment from any one of these work types is not sufficiently representative of the views of frontline workers as a whole. For more effective and comprehensive engagement of frontline workers in HKTb's work to promote Hong Kong, HKTb seeks the views of different levels of the tourism industry and related sectors in formulating and implementing its marketing strategy and promotional activities. For instance, HKTb representatives attend regularly meetings of tour guide associations, who are also invited to attend HKTb's discussion fora organized from time to time. HKTb also discusses with hotel concierges through their trade organizations on how specific promotional activities will better meet tourists' needs.

8. On the basis of its existing efforts, the Administration has encouraged 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 frontline workers to workshops and discussion fora periodically. In addition to the existing consultation arrangements with travel trade stakeholders, HKTb has, starting from 2007-08, extended the consultation on HKTb's marketing plans and strategies to cover non-travel trade stakeholders, such as retail and catering industries, as well as academics.

The feedback gathered will be reported regularly to the relevant committees of the Board. Such arrangements facilitate more effective collection of views of frontline tourism workers on HKTB's work.

### **Way Forward**

9. We will review the composition of the Board from time to time and aim to appoint the best available persons having regard to the functions, strategies and operational requirements of HKTB. We will adopt an open and flexible approach to ensure that there are 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 will contribute to HKTB's long-term objectives and work.

**Tourism Commission**

**Commerce and Economic Development Bureau**

**22 January 2008**



The Hon Mrs Selina Chow, JP Chairman  
立法會議員周梁淑怡太平紳士 主席

23 January 2001

Ms Clara Chong  
Present

Dear Clara

**Letter of Appointment : Executive Director**

Further to our recent discussions, I have pleasure in offering you the appointment of Executive Director on the following terms and conditions.

1. Term of Appointment

- 1.1 The appointment shall take effect on or before 1 March 2001 for a period of 3 years.
- 1.2 The renewal of this contract shall be subject to the mutual agreement of the terms and conditions of employment to be reviewed no less than six months prior to the expiry of this appointment.

2. Salary

- 2.1 The salary for this appointment shall be at a fixed rate of HK\$ [REDACTED] per month on a 12 months' basis.
- 2.2 The salary will be reviewed every 12 months based on general performance, cost of living and market situation.

3. Incentive Award

- 3.1 You shall be eligible for an incentive award of 10% of your total annual basic salary of HK\$ [REDACTED] subject to satisfactory achievement of quantifiable targets as agreed with the Board on an annual basis; for instance, tourism arrival, tourism spending, etc.



- 3.2 The award shall be payable annually at a time to be agreed between you and the Board. However, you shall forfeit any right or entitlement to any such award if you resign from the Association prior to the agreed payment date.
- 3.3 You shall be eligible for a pro-rata amount for the incentive upon your leaving the Association in the event that your contract expires or the Association terminates your appointment for reason other than those as stipulated in Clause 3.6.2 in the Employees' Handbook prior to the agreed payment date.

4. Mandatory Provident Fund

The Association shall make a monthly contribution to the Mandatory Provident Fund Scheme registered under the Mandatory Provident Fund Schemes Ordinance at the statutory contribution rate (i.e. 5% of your relevant monthly income or HK\$1,000 whichever is the less) and you shall promptly pay all contributions due from you under such Scheme.

5. Gratuity

- 5.1 The Association shall pay a terminal gratuity to you after your satisfactory completion of the 3 years' term of the appointment.
- 5.2 The amount of the above-mentioned terminal gratuity shall be a sum calculated as follows:
  - a) 15% of the total amount of salary payable to you under Clause 2 above for the three year period of your employment hereunder; less
  - b) the total amount of contributions (if any) paid by the Association to the Mandatory Provident Fund Scheme.



- 5.3 Where you become entitled to the above-mentioned terminal gratuity, it shall be paid with your salary for the last month of employment hereunder.

6. Car

A car and driver will be provided by the Association for use by yourself, with full car expenses covered. You are entitled to use the vehicle for weekends and non-business days. You have the discretion to make it available for general office use when not required by yourself.

7. Annual Leave and Leave Passage

You shall be entitled to 4 weeks of paid holiday per year. These shall be taken at such times as may be agreed with the Association. The Association shall grant you a leave passage allowance of HK\$ [REDACTED] per 12 months.

8. Business Travel

Your entitlement shall be business class for all journeys.

9. Medical and Dental Scheme

You shall be covered under the Association's Medical and Dental Schemes for the period of your employment hereunder subject to the terms set out in the enclosed Employees' Handbook.

10. Club Membership

You shall be entitled to membership of a luncheon club (China Club or equivalent) and a recreational club (American Club or equivalent) which are held on the basis of your post.





Page 4  
23 January 2001  
Ms Clara Chong

11. Notice of Termination of Employment

This contract of employment may be terminated at any time by either of the parties hereto giving to the other not less than 3 months' prior written notice.

12. Prevention of Bribery

All employees of the Association are classified as "public servants" for the purposes of the Prevention of Bribery Ordinance and any subsequent amendments thereof, and you are prohibited from either accepting or soliciting any advantage or advantages from any person or persons as set out in the said Ordinance.

13. Employees' Handbook

This appointment is subject to the terms and conditions set out in the Association's Employees' Handbook (a copy of which is enclosed herewith). In the event of conflict or inconsistency between such terms and conditions with the provisions in this contract, the latter provisions shall prevail. For the purposes of the Employees' Handbook, your employment hereunder shall be at grade 12 of the Association's ranking scale.

14. Miscellaneous

14.1 This contract is governed by and shall be construed in accordance with the laws of Hong Kong.

14.2 The parties hereto submit to the non-exclusive jurisdiction of the courts of Hong Kong.



Page 5

23 January 2001

Ms Clara Chong

- 14.3 This contract contains the entire understanding between the parties and supersedes 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. Neither party shall be bound by or liable to the other for any representation, promise or inducement made by that party or his/its agents or employees and not embodied herein.

Please sign and return the duplicate of this letter to confirm your understanding and acceptance of this contract of employment. I look forward to working with you to create a new page for the tourism industry of Hong Kong.

Yours sincerely

Selina Chow  
Chairman

Encl

I understand & accept the terms  
indicated above

  
Signature

Date Feb 3, 2001

- c.c. Ms Sandra Lee, JP - Secretary for Economic Services, HKSAR  
Mrs Rebecca Lai - Commissioner for Tourism, Tourism Commission  
Mr Stanley Ko JP - Chairman of the HKTA Staff & Finance Sub-Committee

9th-11th Floors, Citicorp Centre, 18 Whitfield Road, North Point, Hong Kong  
Telephone +852 2807 6543 Facsimile +852 2806 0303 Website DiscoverHongKong.com E-mail info@hktb.com

香港北角威非路道十八號萬國寶通中心九樓至十一樓  
電話 +852 2807 6543 傳真 +852 2806 0303 網址 DiscoverHongKong.com 電郵 info@hktb.com

## HONG KONG TOURISM BOARD 香港旅遊發展局

2 April 2004

Ms Clara Chong  
Present



Dear Clara,

### 2nd Contract of Employment : Executive Director

Further to your contract of employment dated 23 January 2001, we have pleasure in offering you a second contract for the post of Executive Director on the following terms:

#### 1. Term of Appointment

- 1.1 The appointment takes retrospective effect from 19 March 2004 for a period of 3 years.
- 1.2 The renewal of this contract shall be subject to the mutual agreement of the terms and conditions of employment to be reviewed no less than three months prior to the expiry of this appointment.

#### 2. Monthly Basic Salary

- 2.1 The salary for this appointment shall be at a fixed rate of [REDACTED] per month on a 12 months' basis.
- 2.2 The salary will be reviewed every 12 months based on performance, cost of living and market situation.

#### 3. Variable Pay

- 3.1 You shall be eligible for a variable pay of up to 15% of your total annual package of [REDACTED] per annum subject to satisfactory achievement of targets as agreed with the Board on an annual basis, for instance, tourism arrival, tourism spending, performance indicators with reference to the annual business plan.

3.2 The variable pay shall be payable annually on your anniversary date. However, you shall forfeit any right or entitlement to any such pay if you resign from the Board prior to the agreed payment date.

3.3 You shall be eligible for a pro-rata amount of the variable pay upon your leaving the Board in the event that your contract expires or the Board terminates your appointment for reason other than those as stipulated in Clause 3.6 (b) in the Employees' Handbook prior to the agreed payment date.

4. Mandatory Provident Fund

4.1 Hong Kong Tourism Board shall continue to contribute 5% of your relevant income with the amount capped at HK\$1,000 per month to a scheme established pursuant to the Mandatory Provident Fund Schemes Ordinance; and

4.2 Hong Kong Tourism Board will deduct 5% of your relevant income with the amount capped at HK\$1,000 per month as your own contribution to such scheme.

5. Gratuity

5.1 Hong Kong Tourism Board shall pay a terminal gratuity to you after your satisfactory completion of the 3 years' contract or on pro-rata basis after completion of 2 years' term plus notice period.

5.2 The amount of the abovementioned terminal gratuity shall be a sum calculated as follows:

- a) 15% of the total amount payable by Hong Kong Tourism Board to you as basic salary during the period commencing from 19 March 2004 to the date of termination of the employment hereunder (and for the purposes of calculation of the terminal

gratuity, such basic salary shall not, for the avoidance of doubt, include any housing or rental allowance, travelling allowance or medical or other allowances or expenses that may be paid by Hong Kong Tourism Board to or for the benefit of you during such period); *less*

- b) the total amount of contributions (if any) paid by Hong Kong Tourism Board to the Mandatory Provident Fund Scheme during such period.

5.3 Where you become entitled to the above-mentioned terminal gratuity, it shall be paid with your salary for the last month of employment hereunder.

6. Car

A car and driver shall be provided by the Board for use by yourself, with full car expenses covered. You are entitled to use the vehicle for weekends and non-business days. You have the discretion to make it available for general office use when not required by yourself.

7. Annual Leave and Leave Passage

You shall be entitled to 30 working days of paid leave per year. These shall be taken at such times as may be agreed with the Board and in accordance with the Board's policy set out in the Employees' Handbook. The Board shall grant you an annual leave passage allowance equivalent to 3 return business class tickets for yourself, your spouse and child to the United Kingdom or other destinations, including other long haul destinations.

8. Business Travel

Your entitlement shall be business class for all journeys.

9. Medical and Dental Scheme

You shall be covered by the Board's Medical and Dental Schemes for the period of your employment hereunder subject to the terms set out in the Board's Employees' Handbook.

10. Club Membership

You shall continue to be entitled to membership of a luncheon club (China Club or equivalent) and a recreational club (The Clearwater Bay Golf & Country Club or equivalent) which are held on the basis of your post.

11. Notice of Termination of Employment

Either party may terminate this contract by giving not less than 6 months' written notice for the first two years and not less than 3 months' written notice for the third year to the other party.

12. Prevention of Bribery

All employees of the Board are classified as "public servants" for the purposes of the Prevention of Bribery Ordinance and any subsequent amendments thereof, and you are prohibited from either accepting or soliciting any advantage or advantages from any person or persons as set out in the said Ordinance.

13. Employees' Handbook

This appointment is subject to the terms and conditions set out in the Board's Employees' Handbook as may be amended from time to time by the Board. In the event of conflict or inconsistency between such terms and conditions with the provisions in this contract, the latter provisions shall prevail.

14. Miscellaneous

- 14.1 This contract is governed by and shall be construed in accordance with the laws of Hong Kong.
- 14.2 The parties hereto submit to the non-exclusive jurisdiction of the courts of Hong Kong.
- 14.3 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. Neither party shall be bound by or liable to the other for any representation, promise or inducement made by that party or his/its agents or employess and not embodies herein.

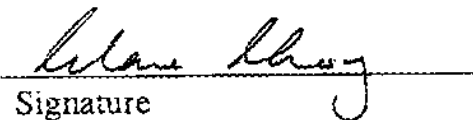
Please sign and return the duplicate copy of this letter to confirm your understanding and acceptance of this contract of employment.

Yours sincerely



Selina Chow  
Chairman

I understand and accept the terms  
indicated above

  
Signature

Date \_\_\_\_\_

cc Ms Sandra Lee, JP, Permanent Secretary for Economic Development & Labour  
Ms Eva Cheng, JP, Commissioner for Tourism  
Mr Stanley Ko, JP, Chairman of HKTB Staff & Finance Committee

Joanna To

---

**From:** Brenda Chan (ITHR)  
**Sent:** Monday, July 12, 2004 11:39 AM  
**To:** Joanna To  
**Cc:** Amy Liu  
**Subject:** FW: Clara's medical

Dear Joanna

For info and please keep a copy on Clara's file.

Tks  
 Brenda

---

**From:** Grace Lee  
**Sent:** Monday, July 12, 2004 8:39 AM  
**To:** Brenda Chan (ITHR)  
**Subject:** RE: Clara's medical

Dear Brenda,

This was something agreed to by the Chairman in Clara'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. You can keep a copy of this in Clara's file for record and future reference.

Grace

---

**From:** Brenda Chan (ITHR)  
**Sent:** Monday, July 12, 2004 8:27 AM  
**To:** Grace Lee  
**Subject:** Clara's medical

Dear Grace

I thought about the medical scheme for Clara, and still feel a bit uncomfortable.

I've mentioned to you earlier my concern as against the market practice, which I'm not going to repeat.

I see there will be internal relativity issue. We are going to implement the Hay soon. As I understand, C&B study covers everyone in the organization, including the ED position. Part of the recommendation will be an across the board medical benefits coverage reduction, to align with market practice.

If we are go enroll Clara to the super medical scheme, will we be able to justify? Will there be credibility issue we need to worry?

Can we consider paying Clara the equivalent to the premium amount of money in her salary or Incentive Award, treating the money as part of the remuneration. Then she enrolls to the scheme in her personal capacity.

Let's discuss this further this afternoon we meet in our regular meeting.

Brenda

12/07/2004



Joanna To

---

**From:** Brenda Chan (ITHR)  
**Sent:** Monday, September 06, 2004 8:56 AM  
**To:** Joanna To  
**Subject:** FW: Medical coverage for Clara and family  
for info and record pls.

---

**From:** Grace Lee  
**Sent:** Sunday, September 05, 2004 11:38 PM  
**To:** Brenda Chan (ITHR)  
**Subject:** FW: Medical coverage for Clara and family

Dear Brenda,

Pls make sure a copy of Chairman's reply is kept in Clara's file.

Grace

---

**From:** selina chow [REDACTED]  
**Sent:** Sun 9/5/2004 9:55  
**To:** Grace Lee  
**Subject:** Re: Medical coverage for Clara and family

Dear Grace,  
Please proceed.  
Selina

----- Original Message -----

**From:** Grace Lee  
**To:** selina [REDACTED]  
**Sent:** Thursday, September 02, 2004 11:23 PM  
**Subject:** Medical coverage for Clara and family

Dear Selina,

I understand that as part of the terms of Clara's contract renewal, she is entitled to enrol 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.

Regards,  
Grace

06/09/2004

To : Mr. Duncan Pescod, Acting Tourism Commissioner  
Mr. Stanley Ko, Chairman, Staff and Finance Committee, HKTB

From : Selina Chow

Date : 4<sup>th</sup> March, 2004/3/4

Dear Duncan and Stanley,

After much toing and froing, I have been able to agree the following with Clara regarding her contract renewal with the HKTB. Subject to your agreement I will instruct Grace Lee to draw up the contract for renewal accordingly. :

Fixed Remuneration : \$3,336,000 (85%) @ \$278,000/month

Variable Remuneration : \$589,000 (15%)

Gratuity/year : \$589,000

Total package : \$4,425,400/year

Term of contract : 3 years

Notice : 6 months for the first 2 years, and 3 months for the 3<sup>rd</sup> year

Gratuity : Gratuity payable on pro-rata basis after two years of service

Annual leave : 30 working days per annum, only half of which can be carried  
Forward for one year

Annual leave passage : 3 return business class tickets for her and her family

Please countersign this memo if you agree with the above terms.

Yours,

政府總部  
經濟發展及勞工局  
常任秘書長(經濟發展)  
香港下亞厘畢道  
中區政府合署



*By fax & by Post*  
PERMANENT SECRETARY FOR  
ECONOMIC DEVELOPMENT AND LABOUR  
(ECONOMIC DEVELOPMENT)  
GOVERNMENT SECRETARIAT  
Central Government Offices  
Lower Albert Road  
Hong Kong

本函檔號 Our Ref: EDB CR 5/2091/60 (80) Pt. 5  
來函檔號 Your Ref:

Tel. No.: (852) 2810 2405  
Fax No.: (852) 2868 4679

23 March 2004


The Honourable Mrs Selina Chow, GBS, JP  
Chairman  
Hong Kong Tourism Board  
9-11<sup>th</sup> Floor Citicorp Centre  
18 Whitfield Road  
North Point  
Hong Kong  
[By fax: 2810 9099]

**Appointment of the Executive Director  
Hong Kong Tourism Board**

Thank you for your letters of 4 and 7 March 2004.

I am pleased to advise you that, pursuant to section 8(3) of the Hong Kong Tourism Board (HKTB) Ordinance, the Financial Secretary has, under delegated authority, approved the re-appointment of Ms Clara Chong as the Executive Director of the HKTB for a period of three years with effect from 19 March 2004. The terms of appointment and remuneration package for Ms Chong shall be the same as those set out in your letter of 4 March 2004.

We look forward to continuing our positive and productive working relationship with Ms Chong and the HKTb for the development and promotion of tourism in Hong Kong.

*Yours ever,*  


( Ms Sandra Lee )  
Permanent Secretary for Economic  
Development & Labour  
(Economic Development)

**Mrs. Grace Lee Chan Ka-yan**

Your Ref: CB(3)/PAC/R49

12th December 2007

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

Attn: Ms. Miranda Hon

Dear Madam,

**Chapters 5 and 6 of  
the Director of Audit's Report No.49**

I refer to your letter dated 30th November 2007.

I enclose a copy of a draft "2nd Contract of Employment" between Ms. Clara Chong and the Hong Kong Tourism Board (HKTb) with my notes marked in my own handwriting. I was recently provided by the HKTb with a copy of this document, to which I may need to make reference at the public hearing.

I thank you for your kind attention.

Yours faithfully,



Grace LEE CHAN Ka Yan

c.c. Mr Anthony Lau, Executive Director, HKTb

Mrs. Daisy Lam, Deputy Executive Director, HKTb

Ms. Clara Chong

*Draft contract from  
Emce.*

*Clara has agreed on the  
terms & will return us  
the signed copy.*

2 April 2004

Ms Clara Chong  
Present

Dear Clara,

### **2nd Contract of Employment : Executive Director**

Further to your contract of employment dated 23 January 2001, we have pleasure in offering you a second contract for the post of Executive Director on the following terms:

#### **1. Term of Appointment**

- 1.1 The appointment takes retrospective effect from 19 March 2004 for a period of 3 years.
- 1.2 The renewal of this contract shall be subject to the mutual agreement of the terms and conditions of employment to be reviewed no less than three months prior to the expiry of this appointment.

#### **2. Monthly Basic Salary**

- 2.1 The salary for this appointment shall be at a fixed rate of \$278,000 per month on a 12 months' basis.
- 2.2 The salary will be reviewed every 12 months based on performance, cost of living and market situation.

#### **3. Variable Pay**

- 3.1 You shall be eligible for a variable pay of up to 15% of your total annual package of \$589,000 per annum subject to satisfactory achievement of targets as agreed with the Board on an annual basis, for instance, tourism arrival, tourism spending, performance indicators with reference to the annual business plan.

- 3.2 The variable pay shall be payable annually on your anniversary date. However, you shall forfeit any right or entitlement to any such pay if you resign from the Board prior to the agreed payment date.
- 3.3 You shall be eligible for a pro-rata amount of the variable pay upon your leaving the Board in the event that your contract expires or the Board terminates your appointment for reason other than those as stipulated in Clause 3.6 (b) in the Employees' Handbook prior to the agreed payment date.

4. Mandatory Provident Fund

- 4.1 Hong Kong Tourism Board shall continue to contribute 5% of your relevant income with the amount capped at HK\$1,000 per month to a scheme established pursuant to the Mandatory Provident Fund Schemes Ordinance; and
- 4.2 Hong Kong Tourism Board will deduct 5% of your relevant income with the amount capped at HK\$1,000 per month as your own contribution to such scheme.

5. Gratuity

- 5.1 Hong Kong Tourism Board shall pay a terminal gratuity to you after your satisfactory completion of the 3 years' contract or on pro-rata basis after completion of 2 years' term plus notice period.
- 5.2 The amount of the abovementioned terminal gratuity shall be a sum calculated as follows:
  - a) 15% of the total amount payable by Hong Kong Tourism Board to you as basic salary during the period commencing from 19 March 2004 to the date of termination of the employment hereunder (and for the purposes of calculation of the terminal

gratuity, such basic salary shall not, for the avoidance of doubt, include any housing or rental allowance, travelling allowance or medical or other allowances or expenses that may be paid by Hong Kong Tourism Board to or for the benefit of you during such period); *less*

- b) the total amount of contributions (if any) paid by Hong Kong Tourism Board to the Mandatory Provident Fund Scheme during such period.

5.3 Where you become entitled to the above-mentioned terminal gratuity, it shall be paid with your salary for the last month of employment hereunder.

6. Car

A car and driver shall be provided by the Board for use by yourself, with full car expenses covered. You are entitled to use the vehicle for weekends and non-business days. You have the discretion to make it available for general office use when not required by yourself.

7. Annual Leave and Leave Passage

You shall be entitled to 30 working days of paid leave per year. These shall be taken at such times as may be agreed with the Board and in accordance with the Board's policy set out in the Employees' Handbook. The Board shall grant you an annual leave passage allowance equivalent to 3 return business class tickets for yourself, your spouse and child to the United Kingdom or other destinations, including other long haul destinations.

*on  
(29/2/04)*

8. Business Travel

Your entitlement shall be business class for all journeys.

*Notably agreed by  
the Chairman that the  
allowance can be  
paid + based on a  
non-accountable  
basis.*



9. Medical and Dental Scheme

You shall be covered by the Board's Medical and Dental Schemes for the period of your employment hereunder subject to the terms set out in the Board's Employees' Handbook.

10. Club Membership

You shall continue to be entitled to membership of a luncheon club (China Club or equivalent) and a recreational club (The Clearwater Bay Golf & Country Club or equivalent) which are held on the basis of your post.

*Not fully agreed by the Chairman  
that HKB will agree to Clara's  
request of upgrading her medical  
plan to a 'unlimited' one.*

11. Notice of Termination of Employment

Either party may terminate this contract by giving not less than 6 months' written notice for the first two years and not less than 3 months' written notice for the third year to the other party.

12. Prevention of Bribery

All employees of the Board are classified as "public servants" for the purposes of the Prevention of Bribery Ordinance and any subsequent amendments thereof, and you are prohibited from either accepting or soliciting any advantage or advantages from any person or persons as set out in the said Ordinance.

13. Employees' Handbook

This appointment is subject to the terms and conditions set out in the Board's Employees' Handbook as may be amended from time to time by the Board. In the event of conflict or inconsistency between such terms and conditions with the provisions in this contract, the latter provisions shall prevail.

14. Miscellaneous

- 14.1 This contract is governed by and shall be construed in accordance with the laws of Hong Kong.
- 14.2 The parties hereto submit to the non-exclusive jurisdiction of the courts of Hong Kong.
- 14.3 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. Neither party shall be bound by or liable to the other for any representation, promise or inducement made by that party or his/its agents or employess and not embodies herein.

Please sign and return the duplicate copy of this letter to confirm your understanding and acceptance of this contract of employment.

Yours sincerely

I understand and accept the terms  
indicated above

Selina Chow  
Chairman

\_\_\_\_\_  
Signature

Date \_\_\_\_\_

cc Ms Sandra Lee, JP, Permanent Secretary for Economic Development & Labour  
Ms Eva Cheng, JP, Commissioner for Tourism  
Mr Stanley Ko, JP, Chairman of HKTb Staff & Finance Committee

Your Ref: CB(3)/PAC/R49

18 December 2007

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

Attn: Ms. Serena Chu

Dear Madam,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 49)**

**Chapter 5: Hong Kong Tourism Board:  
Corporate governance and administrative issues**

I refer to your letter to me dated 18 December 2007 and confirm that I and my family members have not continued to join the executive medical plan by paying the insurance premium at my own expense upon expiry of the plan in September 2006

Yours faithfully,

  
Clara Chong

4 January 2008

Ms Serena Chu  
Public Accounts Committee

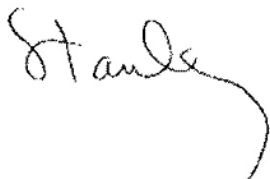
Dear Madam

The Director of Audit's Report on the results of value for money audits (Report N°49)  
Chapter 5 – HKTB – Corporate Governance & Administrative Issues

In response to your letter Ref CB(3)/PAC/R49 on 21 December 2007, I wish to advise as follows:

- a) There was no other specific agreements reached, e g, the budget permissible for the plan etc
- b) I had not followed up the outcome of the sourcing of a medical plan. I was involved in the early meetings only.  
The former Chairman negotiated the final remuneration package in the contract renewal directly with the former ED.
- c) Upon receipt of the copy of the former ED's employment contract dated 2 April 2004.

Yours faithfully



Stanley Ko

/yy



Your ref.:  
Our ref.: EDB 22/12/2

Tel: (852) 2810 3249  
Fax: (852) 2801 5792

4 April 2006

Mrs Grace Lee  
Deputy Executive Director  
Hong Kong Tourism Board  
11/F Citicorp Centre  
Whitfield Road  
Hong Kong  
[Fax: 2807 6411]

*Dear Grace,*

**Senior Staff Matters of the  
Hong Kong Tourism Board**

There are two issues that have come to our attention lately in the course of reviewing the performance and Variable Pay (VP) of the Executive Director of the Hong Kong Tourism Board (ED/HKTB). I am writing to relay our views on these issues and should be grateful for your follow up actions.

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. This clause was not mentioned in the Chairman's proposal of ED/HKTB's remuneration package dated 4 and 7 March 2004 based on which the Government considered the revised package. Accordingly, the approval of the Financial Secretary as conveyed to you vide the letter of 23 March 2004 issued by the Permanent Secretary for Economic Development (the Controlling Officer of HKTB's vote of expenditure under the Economic Development and Labour Bureau) was in line with the Chairman's proposal and did not cover such a term. For the record, we were not party to the drafting of the contract and were not given sight of the contract in any draft form.

We understand that the contract has been signed and become a binding document on both the ED/HKTB and the HKTB. In order to discharge the functions of the Controlling Officer more effectively and to avoid similar misunderstanding in future, I should be grateful if you would institute as a standing arrangement that draft employment contracts to be signed with the senior staff of the first three tiers, i.e. the ED/HKTB, the Deputy ED and General Managers should be sent to us before signing in future.


The timing of the review of performance and VP of ED/HKTB is another point that concerns us. The review for 2004-05 has not been conducted in time which has led to a delay in the payment of the VP. This will lead to a "bunching" effect on HKTB's expenditure account as it is likely that more than one year's VP payment may have to be reflected in the same year of account. This will have two undesirable impacts. Firstly, the original year of account will give a misleading picture of the total package of the ED/HKTB in that it does not fully reflect the total package. The 2005 remuneration package of ED/HKTB as shown in HKTB's Annual Report 2005-06 is a typical example. The "bunching" of VP payment in the following year will present an alarming increase rate which will draw totally undesirable negative PR. In addition, it reflects badly on the discipline of the HKTB Board in reviewing staff performance and monitoring staff matters and the related account.

I am asking my colleagues to institute a tracking system which will assist yourselves and us in monitoring the review of performance of the senior staff in HKTB. In parallel with this, I should be grateful if you would forward to us the copy of signed contracts of the senior staff of the first three tiers. As you would agree, the remuneration of all HKTB staff comes from the public coffers; and as the Controlling Officer, we need to keep a copy of the employment contract signed between HKTB and the senior staff concerned.

In passing, we note that the copy addressees listed on the undated contract of ED/HKTB have not been sent a copy of the contract since the contract was signed. This is the case with the Permanent Secretary, the Commissioner for Tourism and Mr Stanley Ko. My team only managed to obtain a copy of the contract one year later while we were asking for details for another task. I suggest that you look into your office system and plug these loopholes.

I look forward to hearing from you your proposed action plan in taking forward the above. I shall be happy to discuss with you if you would like to go through the above issues.

*Yours sincerely,*

A handwritten signature in black ink, appearing to read 'Maisie' followed by a stylized flourish.

( Ms Maisie Cheng )  
for Commissioner for Tourism

cc Chairman, HKTB (Fax: 2810 9099)

Internal

PSED

AA/SEDL

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49

2 January 2008



By E-mail and By Hand  
Public Accounts Committee  
Legislative Council  
G/F., Legislative Council Building  
8 Jackson Road, Central HK  
Attn: Ms Miranda Hon

Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 24 December 2007 and would like to provide the following additional information:

- (a) The 11 staff whose salaries were higher than 125% of the market median (red circle staff) mentioned in paragraph 4.7(c) of the Audit Report 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 HKTb in March 2005). Please refer to item 3 of the attached Board paper for meeting of 20 July 2005 for details of background and performance rating of the red circle staff concerned.
- (b) The decrease in the number of Band D staff from 126 in 2000/01 to 76 in 2001/2002 is attributable to outsourcing of research fieldwork (11 staff was 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.
- (c) The average actual monthly salary of HKTb Head Office staff from 1999/2000 to 2005/2006 by the 4 different staff bands (Bands A to D) are outlined as per attached table.

**\*Note by Clerk, PAC:** (a) Attachments in items (a), (d) and (e) not attached.  
(b) correspondence in item (f) not attached.



- (d) In accordance with the employment contracts of the former Executive Director (signed by the former Chairman) and the former General Managers (signed by the former Executive Director), copies of which HKTb have earlier provided to the PAC, the variable pay/ incentive award of the former Executive Director and the former General Managers was subject to satisfactory achievement of targets (for instance, tourism arrival, tourism spending, performance indicators with reference to the annual business plan etc) as agreed with the Board or Executive Director respectively.

Please refer to the attached minutes of meeting of the Remuneration Review Committee (composed of the Board Chairman and the Staff and Finance Committee members) held on 30 November 2006 for the approval of variable pay to the former Executive Director for FY05/06.

Please refer to the performance evaluation/ assessment of respective General Managers by the former Executive Directors which HKTb have earlier provided to the PAC in respect of incentive payment to the former General Managers.

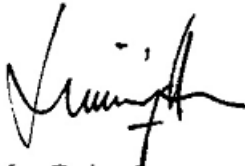
- (e) As you will see from the Board paper submitted to Board members on 31 July 2004 (item 4.2 of the paper attached), the former Deputy Executive Director recommended implementing the performance-based award scheme for staff of rank Senior Manager and below at a date after FY2005/06 when the macro environment was more conducive of such a change and the revamp of the Performance Management System was completed. On 24 March 2006, the former Deputy Executive Director reported to the Board about the progress of revamping the Performance Management System (PMS) and sought the Board's approval on implementation of the new Performance Management System as from FY2006/07 (relevant board paper is attached). The new PMS was subsequently implemented in FY2006/07.
- (f) We regret not being able to retrieve documentary proof showing the exact date of signing of the second employment contract by the former Executive Director. As you will see from the attached emails and correspondence we retrieved from Ms Clara Chong's personnel file, the contract was still not signed as of February 2005.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

All of the above are personal data and we appreciate the same not be included in the appendix of the PAC report and identities of individual mentioned in those documents or information be masked.

Thank you for your kind attention to our request

Yours sincerely

A handwritten signature in black ink, appearing to read 'Daisy Lam', with a stylized flourish at the end.

Mrs Daisy Lam  
Deputy Executive Director

Enc.

cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

**Information on Headcount and Salary Information****Head Office**

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06*	2005/06 #
<b>Total Headcount Establishment</b>	<b>325</b>	<b>271</b>	<b>222</b>	<b>222</b>	<b>222</b>	<b>226</b>	<b>226</b>	<b>226</b>
<b>Band A</b>								
Headcount	7	7	7	7	8	8	7	7
Salary Range (HK\$)	94,350-154,150	94,350-250,000	94,350 - 250,000	94,350 - 250,000	94,350 - 250,000	120,980 – 252,730	120,980 – 252,730	123,999 – 259,052
Average Actual (HK\$)	129,913	151,090	147,197	144,566	147,189	163,456	163,456	168,608
<b>Band B</b>								
Headcount	32	34	41	42	41	41	43	43
Salary Range (HK\$)	50,120 - 79,595	50,120 - 79,595	50,120 - 79,595	50,120 - 79,595	50,120 - 79,595	41,038 - 90,192	41,038 - 90,192	42,064 – 92,447
Average Actual (HK\$)	65,205	63,757	65,451	63,832	64,093	62,796	62,582	63,256
<b>Band C</b>								
Headcount	129	104	98	98	103	105	103	103
Salary Range (HK\$)	21,465 – 35,400	21,465 – 35,400	21,465 – 35,400	21,465 – 35,400	21,465 – 35,400	21,554 – 31,923	21,554 – 31,923	22,093 – 32,721
Average Actual(HK\$)	25,677	25,627	25,750	25,020	24,566	24,819	24,238	24,436
<b>Band D</b>								
Headcount	157	126	76	75	70	72	73	73
Salary Range (HK\$)	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	8,885 – 17,708	8,885 – 17,708	9,107 – 18,150
Average Actual (HK\$)	12,778	12,191	12,679	12,834	12,797	12,515	12,482	13,324

**Remarks:**

The salary figures in the **2005/06 \*** column were reported in May 2005 but the annual salary review for 2005/06 had not yet been effected at the point of reporting. The column of **2005/06 #** contains the salary figures that had reflected the 2005/06 annual salary review.

**Carol Wong**

---

**From:** Joanna To  
**Sent:** Tuesday, March 01, 2005 9:19 AM  
**To:** Carol Wong  
**Subject:** FW: Contract renewal for ED

Dear Carol

For yr record pls.

rgds  
Joanna

---

**From:** Brenda Chan (ITHR)  
**Sent:** Tuesday, March 01, 2005 8:35 AM  
**To:** Patricia Lam  
**Cc:** Joanna To  
**Subject:** FW: Contract renewal for ED

Dear Pat  
Please see the confirmation from Grace on payment of leave passage to Clara.

Thanks  
Brenda

---

**From:** Grace Lee  
**Sent:** Monday, February 28, 2005 11:31 PM  
**To:** Brenda Chan (ITHR)  
**Cc:** Joanna To  
**Subject:** RE: Contract renewal for ED

Dear Brenda,

Have reminded Clara to sign back the contract. Will do so again. As regards the leave passage, it was agreed that the amount can be paid to her as a non accountable allowance. Pls proceed to make the payment accordingly.

Grace

---

**From:** Brenda Chan (ITHR)  
**Sent:** Mon 2/28/2005 21:23  
**To:** Grace Lee  
**Cc:** Joanna To

26/10/2005

**Subject:** FW: Contract renewal for ED

Dear Grace

In the past, we made leave passage payment to ED in March.

A reminder to ensure that we will be able to make timely payment this year.

Thanks  
Brenda

---

**From:** Brenda Chan (ITHR)  
**Sent:** Monday, February 21, 2005 2:51 PM  
**To:** Grace Lee  
**Subject:** FW: Contract renewal for ED

Dear Grace

We have not yet received the signed contract from Clara. Have you had a chance to speak to Clara since we talked last time?

For the payment of leave passage, shall I ask Pat Lam to effect the payment based on 3 return tickets on Biz Class, HK-UK without the need to wait for the signed contract, which has been enforced in practice?

Brenda

---

**From:** Patricia Lam  
**Sent:** Monday, February 21, 2005 1:46 PM  
**To:** Brenda Chan (ITHR)  
**Subject:** RE: Contract renewal for ED

Dear Brenda,

Any news? As I do not have a copy of the new contract, I have no idea how the leave passage of \$146,400 is to be paid out. Need any supportings?

Regards,

Pat

---

**From:** Patricia Lam  
**Sent:** Tuesday, November 16, 2004 3:38 PM  
**To:** Brenda Chan (ITHR)  
**Subject:** RE: Contract renewal for ED

Thanks.

26/10/2005

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**From:** Brenda Chan (ITHR)  
**Sent:** Tuesday, November 16, 2004 3:37 PM  
**To:** Patricia Lam  
**Subject:** RE: Contract renewal for ED

Dear Pat

I've only got the draft. Have just asked Winnie's help. Will make a copy to you when available.

Brenda

---

**From:** Patricia Lam  
**Sent:** Tuesday, November 16, 2004 3:33 PM  
**To:** Brenda Chan (ITHR)  
**Subject:** Contract renewal for ED

Dear Brenda,

Please advise if you have received the signed copy of the above (from 19 March 2004). If so, please pass me a copy. Fyi, Grace has told me in July/Aug that the letter has been passed for Clara's signature.

Thanks.

Pat

26/10/2005

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## HONG KONG TOURISM BOARD 香港旅遊發展局

18 April 2006



Ms Maisie Cheng  
 Acting Commissioner for Tourism  
 Tourism Commission  
 Economic Development and Labour Bureau  
 The Government of the Hong Kong  
 Special Administrative Region  
 2/F East Wing, Central Government Offices  
 Lower Albert Road, Hong Kong

Dear Maisie *Maisie,*

### Senior Staff Matters of the Hong Kong Tourism Board

I refer to your letter dated 4 April 2006. I would like to respond to you in the same order as your letter.

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 infact dated 2 April 2004. The review clause was carried forward from clause 2.2 of the first contract. Since the Chairman's memo dated 4 March 2004 to the then Acting Tourism Commission which was subsequently approved by the Financial Secretary under delegated authority has not mentioned any variation to this clause, the clause was brought forward to the new contract as is.

As regards your point about the Tourism Commission not being a party to the drafting of the contract and not given sight of it in any draft form, I again refer to the note of the Chairman dated 4 March 2004 in which she said to the then Acting Tourism Commissioner that she would instruct myself to draw up the renewal contract accordingly. Since no reference was made in the Chairman's note nor in the reply from the then Acting Tourism Commissioner that the Tourism Commission needed to be a party of the contract drafting or have sight of the draft form, I was not aware of the Tourism Commission's expectation in this regard. Nonetheless, I have noted your request to have sight of draft employment contracts for the first three tiers of senior staff before signing in future. This will hopefully allay any concerns you may have on the terms of the contract being finalized before the Tourism Commission has sight of them.

Page 2  
18 April 2006  
Ms Maisie Cheng

As per your request to have copy of signed contracts of the senior staff of the first three tiers, they are enclosed herewith with this letter.

As has been explained before, the delay in dealing with the ED's variable pay in 2005 was due to the extremely heavy workload and priority being given to other more pressing matters that cropped up throughout the year. Nonetheless, we recognize the shortcoming of the practice and will instigate a system to ensure timely payment in future.

With regard to the copying of the ED's contract to the copy address list, I apologise for the oversight. Since your office already has a copy of the contract, a copy will now be sent to the Permanent Secretary and Mr Stanley Ko. We will ensure copies are sent to the copy addressees in future.

Thank you for your letter and I hope I have addressed the concerns raised in your letter.

Yours sincerely



Grace Lee  
Deputy Executive Director

Enc

cc The Hon Mrs Selina Chow, GBS, OBE, JP, Chairman, HKTB (w/o Enc)  
Ms Clara Chong, Executive Director, HKTB (w/o Enc)


*\*Note by Clerk, PAC: Copies of signed contracts of senior staff of the first three tiers not attached.*



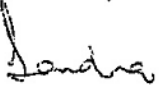


Hong Kong Tourist Association 香港旅遊協會

Selina Chow, JP Chairman  
周梁淑怡太平紳士 主席

Miss Sandra Lee,   
Secretary for Economic Services,  
Hong Kong Special Administrative Region Government.

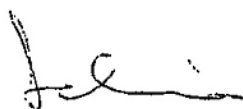
4<sup>th</sup> November, 2000.

Dear ,

I am writing to confirm the intention of the Hong Kong Tourist Association's Board of Management to offer the appointment of Executive Director to Miss Clara Chong, whose resume has been submitted to you earlier. Attached are the key terms of the proposed offer. As the approval of the Chief Executive is required for the appointment of the Executive Director for the Association under the Tourist Association Ordinance, I would appreciate your letting me know whether this offer is approved, so that I can proceed with it.

Furthermore due to the confidential nature of this process, I would be most grateful if we could set up a meeting early next week with Miss Chong to bring the matter to a conclusion satisfactory to all of us.

Yours,



Selina Chow  
Chairman  
Hong Kong Tourist Association

Key terms of appointment in Hong Kong Tourist Association's offer to Ms Clara Chong

1. Length of contract

The appointment shall take effect on or before 1 March 2001 for a period of 3 years.

2. Salary

The salary for this appointment shall be at a fixed rate of HK\$ [REDACTED] per month on a 12 months' basis. It shall be reviewed every 12 months based on general performance, cost of living and market situation.

3. Incentive Award

She shall be eligible for an incentive award of 10% of her total annual basic salary of HK\$ [REDACTED] subject to satisfactory achievement of quantifiable targets as agreed with the Board on an annual basis. However any right to such an award shall be forfeited if she resigns from the Association prior to the agreed payment date.

4. Gratuity

The Association shall pay a terminal gratuity to her on completion of the 3 years' term of the appointment. It shall be a sum calculated as follows :

- a) 15% of the total amount of salary payable to her under Clause 2 above for the three year period of her employment; less
- b) the total amount of contributions paid by the Association to the Mandatory Provident Fund Scheme.

5. Annual Leave and Leave Passage

She shall be entitled to 24 days of paid holiday per year.

6. Notice of termination of employment

This contract can be terminated by either party on 3 months' notice.

政府總部  
經濟局局長  
香港中環卑連  
中區政府合署



SECRETARY FOR ECONOMIC SERVICES  
GOVERNMENT SECRETARIAT

Central Government Offices  
Lower Albert Road  
Hong Kong

Tel : 2810 2405

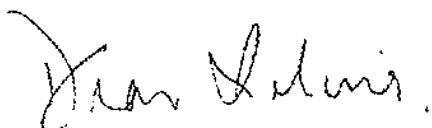
Fax : 2868 4679

Our Ref: ESB CR 5/2091/60(00) Pt 5

Your Ref:

11 November 2000

The Hon Mrs Selina Chow, JP  
Chairman  
Hong Kong Tourist Association  
c/o Room 509, West Wing  
Central Government Offices  
Hong Kong

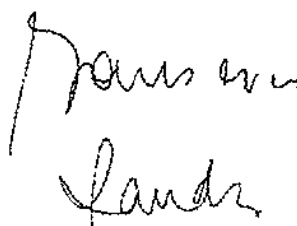


**Appointment of the Executive Director  
Hong Kong Tourist Association**

Thank you for your letter of 4 November 2000.

I am pleased to advise you that, pursuant to Section 8(2) of the Hong Kong Tourist Association Ordinance, the Financial Secretary has, under delegated authority, approved the appointment of Ms Clara Chong as the Executive Director of the Hong Kong Tourist Association for a period of three years commencing on or before 1 March 2001. The key terms of appointment and remuneration package for Ms Chong shall be the same as those approved by the HKTA Board of Management and set out in your letter of 4 November 2000.

I shall be pleased to meet you and Ms Chong as proposed. My colleagues will get in touch with you to arrange a date for us to meet.



( Ms Sandra Lee )  
Secretary for Economic Services

9th-11th Floors, Citicorp Centre, 18 Whitfield Road, North Point, Hong Kong  
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## HONG KONG TOURISM BOARD 香港旅遊發展局

Anthony Lau, Executive Director  
劉鎮漢 總幹事

18 March 2008

Clerk, Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong  
Attn: Ms Serena Chu



Your Ref: CB (3)/PAC/R49

Dear Ms Chu

### **The Director of Audit's Report on the Results of Value for Money Audits (Report No. 49)**

#### **Chapter 5: Hong Kong Tourism Board (HKTb) Corporate governance and administrative issues**

I am writing to respond to your letter dated 12 March 2008 concerning the executive medical plan for the former Executive Director of the Hong Kong Tourism Board (HKTb).

The HKTb has appointed a law firm to advise on this matter. In light of revelation of further findings during the PAC hearing and subject to PAC's recommendations in its Report, the HKTb will decide the next course of action.

Please feel free to contact myself on 2807 6234 or Mrs Daisy Lam, our Deputy Executive Director on 2807 6300 in case you have any questions or need further information.

Yours sincerely

Anthony Lau  
Executive Director

c.c. The Hon James Tien, HKTb Chairman  
Commissioner for Tourism

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49

2 January 2008



By E-mail and By Hand  
Public Accounts Committee  
Legislative Council  
G/F., Legislative Council Building  
8 Jackson Road, Central HK  
Attn: Ms Miranda Hon

Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 19 December 2007 and would like to provide the following additional information:

- (a) Please find enclosed copies of the Internal Audit reports and relevant Audit Committee meetings minutes in the past three years as requested. The Internal Audit reports have been reviewed by the Audit Committee. Due to bulk of documents involved, we will provide the PAC with copies by courier.
- (b) In the past, 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 owed to the reason that the publication, which was distributed to overseas travel trade and media through the HKTB worldwide offices, was also intended to fulfill the secondary function of showcasing and promoting Hong Kong's strengths and attractions as a premier tourism destination.

In September 2005, the then Economic, Development and Labour Bureau invited the HKTB to comment on the proposal of some Legislative Council Members that the tabling of the HKTB Annual Report three months after the end of the reporting period was a reasonable time limit.

*\*Note by Clerk, PAC: Copies of Internal Audit reports and minutes of Audit Committee meetings not attached.*

In replying the Economic, Development and Labour Bureau on 24 September 2005, 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.”

In determining the timeline for tabling the Annual Report, consideration has also to be given to the fact that the audited financial statements approved by the Board will only available in end September/early October, after which layout can be arranged. In addition, the final layout copy has to be submitted to the Board for comments and approval. Given that reasonable time has to be given to Members for reviewing the copy, the whole process, including revisions, will take about two to three weeks. After securing the Board’s clearance, the HKTb will then proceed with the production and printing process, which will take around 7-10 working days.

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 after the end of the reporting period. The HKTb estimates that the production of the Annual Report could be completed within two months after the audited financial statements have been approved by the Board and signed off by the independent auditors.

(c) Please refer to details in the attached.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

Page 3  
2 January 2008

Documents and information provided under (a) above may involve confidential data and we appreciate the same not be included in the appendix of the PAC report and identities of individual mentioned in those documents or information be masked.

Thank you for your attention.

Yours sincerely



Mrs Daisy Lam  
Deputy Executive Director

Enc

cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

Q: As 'Convention and exhibition events' and "Convention and Exhibition arrivals" were cited as the key performance indicators in HKTb's Business Plan and Budget (Appendix B of the Audit Report refers), please inform the committee of (1) the details of HKTb's work in these aspects, (2) the amount of resources that has been allocated to such work and (3) the effectiveness of such work.

### HKTb's Work in the Convention and Exhibition segment

Convention is generally defined as gatherings of people (local and overseas) from same profession or interest, for networking and professional exchange purpose. Majority of conventions in Hong Kong are initiated by universities, professional associations or government departments. Many are secured through competitive bids against other destinations.

Exhibitions are business-to-business forums for buyers to meet sellers. Most exhibitions held in Hong Kong are recurrent and well established. HKTDC organizes about 40% of exhibitions. Majority of other exhibitions are organized by commercial companies.

These events bring high yield business visitors to Hong Kong and contribute significant economic benefit to the city. In addition, such events raise Hong Kong's international profile. Hence the 'convention and exhibition' segment has always been recognized by HKTb and the travel trade as a key strategic focus.

#### (1) Details of HKTb's work in this segment:

##### Conventions

- Work with local professional and academic community to bid
- Coop with organizers of confirmed conventions in attendance generation
- Provide advice to organisers, cross sell visitor attractions and events to promote attendance and enhance visitor experience
- Telemarketing and personal sales calls to raise awareness of Hong Kong amongst overseas convention organizers
- Brand building under the 'Hong Kong Meeting Your Choice' platform:
  - Direct mail campaign
  - Executive visitation programme
  - Networking functions

##### Exhibitions

- Brand building through advertising in business magazines and trade portals
- Lead HK delegation to overseas missions and industry convention (Joint effort with Hong Kong Exhibition and Convention Industry Association & Hong Kong Trade Development Council) to generate publicity and build awareness amongst potential business partners overseas
- Provide advice to interested exhibition organisers
- Cross selling visitor attractions and events to promote attendance and enhance visitor experience



## (2) Resources allocated

A team of four (one manager, three executives) based in HKTb head office, and one other person (executive) based in London office are dedicated full time to the C&E segment.

Budgets allocated are:

2005/06 (actual spending): \$4M (BAU) and \$3.8M (DHKY additional fund)  
2006/07 (actual spending): \$3.7M (BAU) and \$3.4M (DHKY additional fund)  
2007/08 (budget): \$4.6M (BAU)

## (3) Effectiveness:

According to data collected from organizers, 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 2 times of the spending of the average visitor. Convention and exhibition visitors also tend 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 raise Hong Kong's profile in the respective professions and industries.

The following are examples of significant conventions and new exhibitions that took place in 2005 and 2006:

### Significant Conventions:

- 88<sup>th</sup> Lions Clubs International Convention\*
- 17<sup>th</sup> Meeting of the International Association of Forensic Sciences\*
- 7<sup>th</sup> Asia Pacific Endoscopic Surgery
- World Trade Organisation (WTO) Hong Kong Ministerial Conference
- World Firefighters Games 2006\*
- Int'l Conference on Pattern Recognition\*
- 11<sup>th</sup> Congress of Int'l Society for Peritoneal Dialysis\*

### New Exhibitions:

- China Sourcing Fairs (6 new annual exhibitions starting in 2006)
- Vinexpo
- PATA Travel Mart\*
- ITU TELECOM World\*

*For those marked with \*, HKTb partnered with the Hong Kong member organisation to bid against competing destinations and won the business. Extent of assistance rendered was different in each bid as requirements were different.*

**The Administration's reply to  
Hon SIN Chung-kai's letter dated 6 May 2005**

**X                      X                      X                      X                      X                      X**

**Question 5: Please list out the establishment of the HKTb since 99/00, including the number of staff members of different grades, number of staff members in each overseas office and the salary range of each grade.**

**Reply to Question No. 5:**

The headcount establishment of the Head Office of the HKTb was reduced from 325 in 1999-2000 to 226 in 2005-06, i.e. by 30%. Table 1 below shows the headcount establishment and salary range of each of the four bands in the Head Office from 1999/00. As to salary levels, they are divided into four bands. Each band covers several ranks. The salary range of each band is the mid-point salary of the lowest rank and the highest rank within the band. This is in line with the recommendation of the Hay Group Consultancy Study.

In 1985, in pursuance of a review of the compensation and benefits of its staff, the former Hong Kong Tourist Association (HKTA) approved the proposal to delink the salary scale of their staff from the civil service pay scale and benchmark the salary scale with the market, except for the Executive Director (ED) and the Deputy Executive Director (DED). The remuneration package of the ED and DED was still pegged to the Directorate scale of the Government Master Pay Scale at that time, with other allowances similar to civil service package such as accommodation and education allowances, that were not reflected in the base salary. In 2001, the former HKTA approved, and the Government endorsed, the remuneration package for ED should be revamped with salary level de-linked from the Government Master Pay Scale and pegged with the market level, and the same for DED in 2002. The fringe benefits mentioned above were no longer separately remunerated. The new package was applied to the new ED recruited in 2001 through open recruitment. Hence, there was no change in salary range for Bands B to D from 1999-2000 to 2003-04 because of salary freeze and changes were introduced to Band A in 2000-01.

Table 1 Headcount establishment and salary range of staff in Head Office of the HKTb

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
<b>Total Headcount Establishment</b>	<b>325</b>	<b>271</b>	<b>222</b>	<b>222</b>	<b>222</b>	<b>226</b>	<b>226</b>
Band A							
Headcount	7	7	7	7	8	8	7
Salary Range (HK\$)	94,350-154,150	94,350-250,000	94,350 - 250,000	94,350 - 250,000	94,350 - 250,000	120,980 – 252,730	120,980 – 252,730
Band B							
Headcount	32	34	41	42	41	41	43
Salary Range (HK\$)	50,120 – 79,595	50,120 – 79,595	50,120 – 79,595	50,120 – 79,595	50,120 – 79,595	41,038 – 90,192	41,038 – 90,192
Band C							
Headcount	129	104	98	98	103	105	103
Salary Range (HK\$)	21,465 –35,400	21,465 –35,400	21,465 – 35,400	21,465 – 35,400	21,465 – 35,400	21,554 – 31,923	21,884 – 31,923
Band D							
Headcount	157	126	76	75	70	72	73
Salary Range (HK\$)	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	7,750 – 14,970	8,885 – 17,708	8,885 – 17,708

The HKTb commissioned an independent human resources consultant (Hay Group) in 2002 to conduct a comprehensive comparison of the compensation and benefits for each level of staff in the organization with those in the market; devise a set of benchmarks by making reference to relevant positions in comparable organization; and recommend appropriate remuneration packages. The Hay Group completed its report in 2004. Starting from 2004-05, the mid-point salary for each rank was set in accordance with the recommendation of the Hay Group by making reference to the median salary of comparable rank in the market. The actual salary of individual staff will be determined by his qualification, experience, skills as well as the performance and should be within + or – 25% of the mid-point salary of the respective rank. As this mechanism for the setting of salary level was introduced since 2004, the current salary of some staff may fall outside the + or – 25% range but HKTb is working to gradually migrate them to the appropriate level.

**X**                      **X**                      **X**                      **X**                      **X**                      **X**



"Portia Chan"

2007/12/12 PM 01:09

To miranda hon, serena chu

cc "Anthony Lau" [REDACTED], "Daisy Lam"  
[REDACTED], "Tourism Commission - Laura Tsoi -  
Internet" [REDACTED], "Tourism Commission -  
Miss Au King Chi - Internet" [REDACTED],  
"Tourism Commission - Kinnie - Internet"  
[REDACTED], btang [REDACTED],  
selina [REDACTED], [REDACTED] chong [REDACTED],  
grace [REDACTED]

Subject The Director of Audit's Report (No. 49) on Hong Kong  
Tourism Board (Chapter 5)

Dear Miranda,

We refer to to your letter of 11 December 2007 (your ref: CB(3)/PAC/R49) and enclose herewith a copy of the advertisement for the post of Executive Director (ED) in connection with the recruitment of the former ED in 2001 as requested (attachment 1).

We also set out below further information in respect of item (c) of the Committee's letter dated 6 December 2007 concerning the performance based variable payment (VP).

The VP was first introduced since former ED's (Ms Clara Chong) appointment in March 2001. The then Chairman, Mrs Selina Chow sought the Board's endorsement on the proposed terms of employment for Clara and obtained Government's approval to a gist of the key terms of employment including the VP. VP was made part of Clara's contract terms and it was termed as "incentive award" in the contract. The relevant board meeting minutes and correspondence with the Government are attached for reference (attachment 2) .

According to Clara's 1st contract, she was eligible for the incentive award of 10% of her total annual basic salary subject to satisfactory achievement of quantifiable targets as agreed with the Board on annual basis; for instance, tourism arrival, tourism spending, etc, and the award shall be payable annually at a time to be agreed between her and the Board.

The VP was then introduced to other Band A staff who were subsequently appointed, e.g. Ms Jacqueline Tong ( General Manager, Strategic Planning & Marketing in April 2001), Ms Lambert Chan ( General Manager, Destination Marketing in Aug 2001), Ms Bonnie Ngan ( General Manager, Corporate

Communications and Public Relations in January 2002), or promoted, eg Mrs Grace Lee (Deputy Executive Director (DED) in January 2003). It was set out in their respective contract that the targets and the payment time were to be agreed with ED instead of with the Board and their employment contracts were all signed by ED.

Before Clara's appointment in 2001, all General Managers and Finance & Admin. Director were entitled to 13<sup>th</sup> month salary and without VP. The previous ED (Amy Chan) and DED (Douglas Gautier and James Lu) were not entitled to the 13th month salary nor any VP and their pay was pegged with the Government Directorate pay scale. The relevant document is attached (attachment 3).

There was no documentary proof of any laid-down procedures agreed by the Board for ED to seek approval from the Board or the Staff and Finance Committee to ED's assessment of the DED/GMs' performance as well as decision on granting of VP to them until July 2005.

In July 2005, the Board approved the HR policy on staff appointment and it was specifically laid down that approval has to be sought from a Selection Committee comprising of the Staff & Finance Committee (S&FC) members for appointment of General Managers, and from the HKTB Board and the Financial Secretary also for the appointment of ED and DED. Relevant document is attached (attachment 4).

Regards,  
Daisy Lam  
Deputy Executive Director  
Hong Kong Tourism Board

(cc Secretary for Commerce and Economic Development (via fax)  
Secretary for Financial Services and Treasury (via fax))

\*\*\*\*\*

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*\*Note by Clerk, PAC: Attachments 1 to 4 not attached.*

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
23 January 2008  
By Email and By Hand  
Public Accounts Committee  
Legislative Council  
G/F., Legislative Council Building  
8 Jackson Road, Central HK  
Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 18 January 2008 and would like to provide information as follows:

(a) (i) According to the record of the HKTb, the post of General Manager, Strategic Planning and Marketing had not been advertised and no person other than Ms TONG had applied for or had been interviewed for the post. Those HKTb staff who were involved in the recruitment exercise had already left service.

(a) (ii) No record of interviewers' assessment on Ms TONG can be located.

(a) (iii) No record of recruitment procedures applicable to the recruitment exercise of Ms TONG at that time can be located.

(b) Ms Brenda CHAN's application letter cannot be located from HKTb's files. An email from the former Deputy Executive Director, Mrs Grace Lee, of 1 December 2003 to the former Chairman of the Staff & Finance Committee (email copy attached) shows that Ms CHAN was responding to the advertisement of the HKTb in applying for the post of General Manager, Industry Training and Human Resources. Mr Gilbert CHEUNG was recruited through search firm. Based on the record of the HKTb, Ms CHAN and Mr CHEUNG were not referred by HKTb staff.

(c) We attach the correspondences between the former Chairman of the HKTb and the Government as well as a Board Meeting Minutes relating to the recruitment of the former Executive Director, which the HKTb has earlier provided to the PAC. Apart from these documents, the HKTb has no record in respect of the process for the recruitment of the former ED or the number of applications referred by search firm.

(d) The recruitment options for the post of Deputy Executive Director had been discussed in the Staff & Finance Committee meeting held on 3 September 2002 and it was agreed to appoint Mrs Grace LEE, the then Director, Corporate Support as the Deputy Executive Director by re-titling and expanding her position without the need to advertise the position of the Deputy Executive Director. The Staff & Finance Committee's proposal was subsequently approved by the Board on 5 September 2002 and was eventually approved by the Government on 4 February 2003. The pertinent minutes of the Staff & Finance Committee Meeting held on 3 September 2002 and the Board Meeting held on 5 September 2002 as well as the correspondences between the Chairman of the HKTb and the Government are attached.

(e) The background of introducing the variable pay mechanism in the HKTb has thoroughly been explained to the PAC in our email sent by Mrs Daisy Lam to Ms Miranda Hon of the Public Accounts Committee on 12 December 2007. As mentioned in the said email, the incentive award (i.e. variable payment) was applicable to Mrs Grace LEE (former Deputy Executive Director (DED) as from January 2003 in accordance with her employment contract signed by the former Executive Director (ED) and there was no any procedure laid-down by the Board for the former ED to seek approval from the Board or the Staff and Finance Committee to the former ED's assessment of the former DED's performance as well as 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 for her accordingly.

(f) (i) The secretary (Ms Rita Wong) replied that she cannot recall whether and what comments Mrs Grace Lee had written down on the form. She was only instructed by Mrs Grace Lee to return the form to Miss Cynthia Leung.


(f) (ii) Ms Sandy Lau (secretary of Miss Cynthia Leung) and Ms Rita Wong (secretary of the former DED, Mrs Grace Lee) replied that they did not maintain any office internal mail log books for recording incoming and outgoing documents/ correspondence for the Corporate Communications and Public Relations Division and the former DED respectively. Actually, we would like to advise that HKTb does not have an office internal mail log book system currently in place.

The above may include personal data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals mentioned in those documents or information be masked.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

Thank you for your kind attention to our request.

Yours sincerely



Mrs Daisy Lam

Deputy Executive Director

Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

*\*Note by Clerk, PAC: All the enclosures not attached.*



Your Ref: CB(3)/PAC/R49

11 December 2007

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

Attn: Ms. Serena Chu

Dear Madam,

**The Director of Audit's Report on the results of value for money audits  
Report No. 49 Chapter 5:  
Hong Kong Tourism Board:  
Corporate governance and administrative issues**

I refer to your letter dated 6 December 2007, enquiring about the performance assessment criteria used for determining the variable payments for the Deputy Executive Director (DED) and the three General Managers (GMs) mentioned in Table 7 in paragraph 4.29 of the Audit Report.

To put the evaluation criteria in the right perspective, let me first explain the process for defining the annual performance objectives of each GM and DED. As early as March each year, Jacqueline Tong, GM of Strategic Planning & Marketing would send out a planning schedule for the development of the Annual Business Plan to all senior managers of the organization including both the GMs and DED in Hong Kong. The schedule would show the dates when the GMs and DED need to submit their final Functional Plans for inclusion into the proposed Annual Business Plan, which is then needed to be presented to the Board for final approval.

The Functional Plan of each division would need to go through a series of consultative meetings with me as the Executive Director at the time. At the meetings, the GMs and DED together with their key managers would present their recommended initiatives for the year to contribute to the overall

organization objectives and discuss any major concerns they have in delivering these objectives. Once the Functional Plan was completed, it became the official document containing the annual objectives agreed with each GM and DED. The Function Plans were included as part of the Annual Business which was approved by the Board. It was based on this agreed objectives listed in the Functional Plan that GMs and DED were appraised at the end of the year. I hope this helps to clarify the process of agreeing the] annual objectives of the 3GMs and the DED of the Hong Kong Tourism Board (HKTb).

In regard to the assessment criteria, besides the agreed KPIs, there were other factors considered when deciding the variable payment of the senior managers. In line with the approach adopted by the Board to assess the performance of myself as ED, the successful implementation of the key initiatives described in the Functional Plan was also considered as part of the performance appraisal of the senior managers. 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.

On this point, the Board expressed their views on how to evaluate the senior managers of HKTb in their letter to the Government dated 16 May 2003. Under the section of "Remuneration Mix" point (b) to (d), it stated clearly that there would be practical difficulties in directly relating the activities of the HKTb and the key performance indicators. In addition, owing to the inherent nature of HKTb's operation and its dependency on external factors beyond its control, it is inappropriate to incentivize its executives purely on achievement of specific KPIs. (Please refer to appendix 1) To further support this assessment approach, the Economic Development and Labour Bureau (EDb) in paragraph 3.4 of the Audit Report also reinforced that the effectiveness of the performance of the HKTb cannot not be assessed entirely in quantifiable terms. (Please refer to the Audit Report)

This would explain the decision of the Board to award the full amount of the variable payment to me as the Executive Director for the performance of year 2004/2005, despite that three out of the nine reported KPI targets were not achieved. The factors taken into account when evaluating the performance were the rapid expansion of the IVS visitors which lowered the average Length of Stay (LOS) of the overnight visitors, and the change in survey samples to cover the two land borders Lo Wu and Lok Ma Chau where most

IVS visitors were used. Hence a lower average overnight Per Capita Spending (PCS) was recorded for Mainland visitors while PCS of other major source markets all registered growth.

Using the same yardstick, ED evaluated the performance of the GMs for the year 2004/2005 and 2005/2006. After the assessment of the quantitative objectives (i.e. the agreed KPIs), the outcome of the key initiatives in the Functional Plans were also examined since this constituted part of the overall performance of the GMs. With both the quantitative and qualitative achievements considered, ED then decided if the GMs had delivered an overall satisfactory performance to justify the award of the variable payment as stipulated in their Employee Contracts. As for the assessment for DED, since her accountabilities covered mainly the back end operations of the organization, the annual objectives were mainly the expected qualitative deliverables of each sub-functional area including Human Resources, Legal Support, Finance and System & IT and Office administration. Similarly, an overall satisfactory performance had qualified the DED in receiving of the variable payment for the year 2004/2005 and 2005/2006.

For the year 2006/2007, ED adopted the appraisal format of the new Performance Management System (PMS) introduced in 2006 to assess the overall performance of the GMs and DED. Under this structured mechanism, each of the Key Strategic Focus (KSF) carries a certain weighting. The overall performance score is the sum of the weighted score of all KSFs and the competency assessment score. This final score determines the eligibility of the executive in receiving the variable payment, if applicable. One of the major benefits of this new PMS is that it allows the organization to focus on “what is important” in terms of both qualitative and process outcomes, rather than purely assessing the job incumbent on numerical results. This assessment philosophy was endorsed by the Staff and Finance Committee on February 16 2006. The Board approved this new PMS at end of March 2006 (Please refer to appendix 2). With this background and the understanding of the challenging environment that HKTb operated during 2006/2007 ED looked at the attainment of the KPIs and the other agreed KSFs and then decided to award the variable payment to the three GMs and DED.

In conclusion, as the Executive Director of HKTb during 2001/2002 to April 2006/2007, I 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 to decide the overall performance of each of my direct reports. The performance of the three GMs and DED for the enquired period were all satisfactory (i.e. Score of 3 or above under the new PMS) hence justified my decision of awarding the variable payment. Should there be further questions relating to this subject, I am pleased to answer them during the hearing.

Thank you for your attention.

Yours Sincerely,

  
Clara Chong

*\*Note by Clerk, PAC: Appendices 1 and 2 not attached.*

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
 16 January 2008  
 By Email and By Hand  
 Public Accounts Committee  
 Legislative Council  
 G/F., Legislative Council Building  
 8 Jackson Road, Central HK  
 Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 15 January 2008 and would like to provide information as follows:

(a) There were totally 5 General Manager, Industry Training & Human Resources and 1 General Manager, Strategic Planning and Marketing recruited when the former Executive Director was in position. For recruitment of Dennis Wu (employed between 5 Feb 2007 - present), 38 applications had been received and 6 were shortlisted. For recruitment of Brenda Chan (employed between 5 January 2004 and 31 January 2007), we posted a printed advertisement on the South China Morning Post, 5 applicants had been shortlisted for interview yet there is no record of the total number of applications received. Gilbert Cheung (employed between 27 July 2002 and 1 July 2003) and Richard Wong (employed between 2 August 2001 and 17 Nov 2001) were recruited through search firms. For the recruitment of Gilbert Cheung, 2 applicants had been shortlisted but we cannot locate record of the total number of applications received. For the recruitment of Richard Wong, we cannot locate record of the number of applicants and shortlisted candidates. According to our record, William Ng (employed between 16 July 2003 and 17 Oct 2003) submitted application letter in response to our printed advertisement posted on the South China Morning Post but we cannot locate record of the number of applications received.

For the recruitment of the former General Manager, Strategic Planning & Marketing, Jacqueline Tong, we cannot locate record of the number of applications received and candidates shortlisted. According to our record, Jacqueline Tong was recruited by referral and was interviewed by Mr Stanley Ko, the former Chairman of the Staff & Finance Committee and Mrs Selina Chow, former Chairman of the HKTb.

(b) The recruitment related policies prevailing at the time when the former Executive Director was in post are attached.

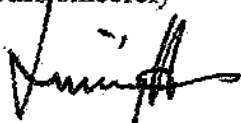
(c) Please refer to the email of 12 June 2006 from the former Deputy Executive Director to Cynthia Leung attached as referred to in paragraph 6.19 and Appendix F of the Audit Report (Chapter 5). However, we cannot locate an email from the former DED to all staff reminding that all trips should obtain prior approval before travel.

The above may include personal data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals mentioned in those documents or information be masked.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

Thank you for your kind attention to our request.

Yours, sincerely



Mrs Daisy Lam  
Deputy Executive Director  
Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

*\*Note by Clerk, PAC: All the enclosures not attached.*

**(English translation of the original letter in Chinese submitted on 10 December 2007)**

Ms Daisy Lam  
Deputy Executive Director  
Hong Kong Tourism Board

Dear Ms Lam,

**Re: The Director of Audit's Report on the results of value for money audits**

Thank you for forwarding the email by Public Accounts Committee of the Legislative Council to me. Please find my reply below and the enclosed summary for reference.

In Appendix F of Report No. 49 in The Director of Audit's Report, there is a section regarding my business trip to UK and France in May 2006. Since the report doesn't include all the details, readers might easily be led to conclude that I went on that business trip and took a few days off after that without any permission.

I joined the Hong Kong Tourist Association in 1992. During my past 15 years with the organization before my departure on 8 January 2007, I have been assigned overseas business assignments from time to time. Each and every time, I would follow all necessary procedures and had never encountered any problem or anything similar to this case in question. In 6 (a) under Appendix F, it quoted the HKTb's response in answering the Audit enquiry that "both the staff who took the trip and the staff who approved the trip had already left the HKTb." This reply to me is something which I think doesn't reflect the whole truth. The person who assigned me to this overseas trip was the then Acting General Manager of the Corporate Communications & PR Division, Ms Cynthia Leung, who is now the General Manager of the division at HKTb.

I am most willing to answer any questions the Committee might have at any time convenient to you. Please feel free to contact me on [REDACTED].

Yours sincerely

Lau Yee Man  
(ex-HKTb Corporate Communication & PR Manager)

**\*Note by Clerk, PAC: Summary not attached.**

(English translation of the original letter in Chinese submitted on 19 March 2008)

To: Ms Miranda Hon  
Clerk  
Public Accounts Committee  
Legislative Council

Dear Ms Hon,

**Re: The Director of Audit's Report on the results of value for money audits**

Thank you again for inviting me to the public hearing regarding The Director of Audit's Report about the Hong Kong Tourism Board. After I confirmed my attendance to the public hearing, I was sent some reference document by the Secretariat of the Public Accounts Committee which I have never seen before. As those documents were very helpful to my recollection of the entire case, I wish to take this opportunity to supplement more information for the Committee's reference. I've marked those additional information in **BOLD** on the enclosed table for your easy reference.

Please accept my sincere thanks once again for granting me this opportunity to defend my case. Please don't hesitate to contact me on [REDACTED] should you need any more clarification. Thank you!

Yours sincerely,

Lau Yee Man

(ex-HKTB Corporate Communication & PR Manager)



**English translation of the Chinese version submitted on 19 March 2008.**

Date	Content	Remarks
26 April 2006	Denis Law, Senior Manager, Strategic Planning, sent an email to Cynthia Leung, Acting General Manager, Corporate Communications & PR (CCPR) and Aliana Ho, General Manager, Tourism Marketing, regarding a Market Study in France and asked if they or their team members would like to attend.	Please refer to email in Attachment *A
27 April 2006	Cynthia forwarded Denis' email to her subordinate Claire Lau, CCPR Manager, and asked if she wanted to attend.	Ditto
28 April 2006	Claire replied Cynthia that she could use the opportunity to meet with her counterparts, i.e. HKTB's Director for French-speaking Europe and the PR agency and discuss some media and PR-related issues.	
Same day	Cynthia emailed Denis and Claire, telling both of them that she would like to send Claire as a representative of CCPR division. She also requested Claire to participate in the research in London as well.	
<u>3 May 2006</u>	<u>Claire emailed the secretary of Cynthia to notify her about such business trip. She then reminded Claire to fill in the Business Travel Request Form. Claire replied that she would wait for Cynthia's return after her holiday and would asked for her permission to take a few days off after the trip. She would then submit both the Business Travel Request Form and the Leave Application Form for the secretary to follow up.</u>	<u>Cynthia went to Pattaya for business from 24 to 25 April, and then to New York for business and stayed behind in New York for holiday until she returned to work on 8 May. (Please refer to attachment 甲.)</u>  On the same day, Claire started to discuss with HKTB's Director in France to arrange meetings and asked Cynthia's secretary to help make flight reservation.
8 May 2006 (Monday)	Claire emailed Cynthia to report on the detailed schedule of the business trip to London and Paris between 16 to 24 May and also asked for her approval to take a few days off afterwards as she still had 5 and a half day outstanding days-off which would be forfeited by end of June.	Please refer to Attachment *B

\*Note by Clerk, PAC: All the enclosures not attached.

Same day	Cynthia replied by email, saying that she was happy with what Claire had proposed.	
<u>9 May 2006</u> <u>(Tuesday)</u>	<u>Claire followed the established procedures and submitted the Business Travel Request Form and Leave Application Form to Cynthia for approval and signature.</u>	The established procedure is to have the forms approved and signed by Cynthia. Her secretary will then send it to the Deputy Executive Director Grace Lee via internal delivery. The signed document will be sent back to Cynthia. Claire will then receive it and be able to keep it for record.
	Claire informed HKTb's Director in France about her business trip to Paris with Strategic Planning team. The Director replied Claire that she couldn't book Claire to the same hotel as the rest of the team owing to a large convention taking place in Paris at the time. The Director then suggested Claire to book another hotel by herself. Claire then found herself a room via the internet.	Regarding the schedule in London, Denis informed the Regional Director in London about Claire's participation and asked her to arrange hotel accommodation for Claire.
<u>12 May 2006</u> <u>(Friday)</u>	<u>Cynthia's secretary emailed Grace's secretary to ask her about Claire's Business Travel Request Form because she only received Claire's Leave Application Form from Grace, but not the Business Travel Request Form.</u>	<u>Claire was not copied in this email. Cynthia's secretary followed up on this per established procedures.</u>
12 May 2006 (Friday)	Claire Lau received her Leave Application Form but not the Business Travel Request Form. She then asked Cynthia several times about it but was never told that the business trip was not approved. Cynthia only told Claire that the leadership team had asked her why there was a need to send a team member from the CCPR division. Cynthia also told Claire that wouldn't be a problem and she would talk to them.	
<u>15 May 2006</u> <u>(Monday) *The</u> <u>day before</u> <u>Claire Lau's</u> <u>departure.</u>	<u>Grace Lee's secretary emailed Cynthia's secretary, telling her that Claire's Business Travel Request Form was on its way to Cynthia.</u>	<u>Claire was not copied in this email.</u>

<u>16 May 2006</u> <u>(Tuesday)</u> <u>Claire Lau's</u> <u>departure day</u>	Claire kept on asking Cynthia about the Business Travel Request Form because she still hadn't got it back from Cynthia. <u>Cynthia replied Claire that she hadn't received it yet but reassured Claire that there wouldn't be any problem because she would talk to the Executive Director Clara Chong.</u>	<u>Claire reported duty at the office as usual because her flight to Paris was in the evening. Claire only went home for her luggage after finishing all her work before her departure for the airport. Claire also had meetings with her team members to ensure everything was in order and told her team to call her any time they needed her.</u>
Same evening	Claire Lau departed for Paris to attend the scheduled meetings.	
<u>12 June 2006</u>	Claire asked Cynthia again if she had got back the Business Travel Request Form because Finance Department would also require a copy for record. Cynthia then told Claire that the Form had been lost. She then asked Claire to fill in another one for her to sign.	<u>Claire had to be in charge of a large-scale international travel trade and media programme as soon as she returned from the trip. It also took her some time to collect all the necessary supporting document like credit card statements and telephone bills, therefore she didn't follow up on the Form immediately after her return.</u>
<u>Same day</u>	<u>As Cynthia's reply sounded quite odd to Claire, after she had filled in the form for the second time and Cynthia had signed on it again, Claire sent it directly to Grace Lee's office instead of via Cynthia's secretary. She also attached all the supporting document like the email correspondence between her and Cynthia for Grace's reference.</u>	
Same day	The Business Travel Request Form was approved by Grace and sent back to Claire the same day. Grace made a remark "refer to email on 12/6/06" with Cynthia next to her signature. Claire was not copied in the said email.	Please refer to Attachment *C.

Cynthia Leung

---

From: Cynthia Leung  
Sent: Tuesday, December 11, 2007 11:49 AM  
To: Daisy Lam  
Subject: PAC hearing - Appendix F explanation  
  
Importance: High

Dear Daisy,

I refer to the letter dated 10 December 2007 from Claire Lau, former Manager of Corporate Communications & Public Relations Division (CCPR), explaining why she commenced the business trip before she had received the processed travel request form.

In the letter, Ms Lau questioned the HKTb's response in the Report that "both the staff who took the trip and the staff who approved the trip had already left the HKTb". According to her, the approving authority was the "acting General Manager" of CCPR, that is, me. Ms Lau also mentioned that the HKTb's response to this case leaves room for further thought.

I should like to set the record straight that the approving authority for this business travel case should be the Deputy Executive Director, as per the HKTb's Financial Policies and Procedures. During the time when the business travel took place, I was actually the division's "acting Head" rather than "acting General Manager", and I had no authority to approve but only recommend business trips by staff at the manager level.

In response to the Public Accounts Committee's request for further information relating to this case, I have also put together a summary of the sequence of events, supported by the e-mails between the relevant parties and other internal documents on the business travel expense reimbursement from the Finance Division. I shall arrange a set of the documents to be delivered to your office for your consideration.

I hope the above would present a fuller picture of the circumstances surrounding this particular case. Please do let me know if you have any questions or need further information. Thanks!

Regards,

Cynthia

Your Ref: CB (3)/PAC/R49

2 April 2008

Clerk, Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong  
Attn: Ms Serena Chu

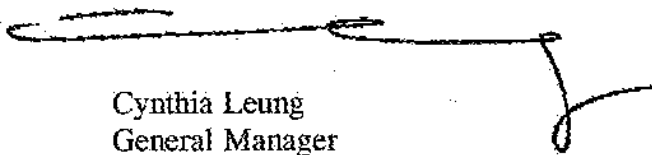
Dear Ms Chu,

**The Director of Audit's Report - Chapter 5 Appendix F**

Referring to the PAC document with reference number: R49/5/GEN2(01c), I herewith provide its English version, supplemented with additional information (changes highlighted in bolded in Chinese copy). The same information was mentioned during my testification in the PAC Public Hearing, and this detailed written account is intended for record purposes.

I earnestly hope that the PAC Chairman and Members would take it as reference.

Yours sincerely



Cynthia Leung  
General Manager  
Corporate Communication and Public Relations  
Hong Kong Tourism Board

Director of Audit's Report No. 49 Chapter 5 – Appendix F – Chronology of Events

The sequence of events is put together based on e-mails between the following relevant parties, and other internal documents from HKTB's Finance Division.

Relevant parties

Deputy Executive Director (DED)	Mrs Grace Lee
Senior Manager	Ms Cynthia Leung
Manager	Ms Claire Lau
Secretary of Senior Manager	"Secretary A"
Secretary of DED	"Secretary of DED"

Date	Event
26 April 2006	<ul style="list-style-type: none"><li>The Senior Manager Ms Cynthia Leung (Leung) received an e-mail from the Strategic Planning Division (Denis Law), asking if her team members would join the Focus Group, a marketing activity held in Paris in May 2006, and the market review in London. <i>(Note 1)</i></li></ul>
27 April 2006	<ul style="list-style-type: none"><li>Leung considered that the programme would be useful to the work of Ms Claire Lau (Lau), the Manager who handled overseas public relations and publicity for long-haul markets. She then asked Lau if she would be interested to join the programme. <i>(Note 2)</i></li></ul>
28 April 2006	<ul style="list-style-type: none"><li>Lau replied that she would like to join the programme, and would take the opportunity to arrange meetings with media, HKTB co-workers and PR agencies in Paris and London during the visit to discuss work plans.</li></ul>
3 May 2006	<ul style="list-style-type: none"><li>Lau asked Leung's secretary "Secretary A", who also helped out with the Division's administrative work, to make air ticket reservations for her.</li></ul>

	<ul style="list-style-type: none"> <li>• “Secretary A” reminded Lau <u>by e-mail</u> that she had to fill in the Business Travel Request form, which required approval from the Deputy Executive Director, before her trips.</li> <li>• Lau said that she would fill in the form for the trip, and indicated that the trip was already recommended and approved by Leung. She also said that she would apply annual leave after the trip.</li> <li>• Later on in the same day, “Secretary A” informed Lau that reservation had been made with the travel agent, and <u>stated that the Finance Division would eventually require approval from the DED about her trip application.</u> The approval hierarchy of staffs’ business trips was also attached in the email of “Secretary A” to Lau for her reference. <i>(Note 3)</i></li> </ul>
8 May 2006	<ul style="list-style-type: none"> <li>• Lau replied to “Secretary A” by e-mail and said that she would fill in the Business Travel Request Form as per her advice.</li> <li>• <b>Leung had a business trip to New York from 26 Apr to 2 May, and had a one-day-off short stay before taking a flight back to Hong Kong on 3 May, arriving on 4 May. As it was a long weekend from 5-7 May, Leung came back to the office on 8 May. Besides, Leung originally planned another business trip to Pattaya, Thailand on 24 Apr, but it was cancelled as she had some other important engagements in Hong Kong.</b> (Therefore, Lau’s written reply to LegCo Chief Council Secretary (R49/5/GEN39) on 19 Mar 2008, in which she mentioned that Leung “went on business trips to Pattaya, Thailand and New York, and stayed in the US for vacation from 24 Apr to 7 May, thus she only returned to Hong Kong on 8 May”, <u>is not entirely accurate.</u>)</li> </ul>
11 or 12 May 2006	<ul style="list-style-type: none"> <li>• Leung received a phone enquiry from DED about Lau’s business trip, but there was no indication of <u>disapproval.</u></li> </ul>

12 May 2006	<ul style="list-style-type: none"><li>• In the morning, Lau proceeded to confirm the booking with the travel agent herself.</li><li>• In the evening the same day, "Secretary A" asked "Secretary of DED" about the status of Lau's Business Travel Request Form. (* Leung was not copied of the enquiry)</li></ul>
15 May 2006 (The day before Lau's departure)	<ul style="list-style-type: none"><li>• "Secretary of DED" replied that the form "is now on its way" to Leung's office. (At that time, "Secretary of DED" did not indicate if Lau's Business Travel Request was approved or not by DED). (* Leung was not copied in the correspondence)</li></ul>
16 May 2006 (The day of Lau's departure)	<ul style="list-style-type: none"><li>• In the morning, "Secretary A" asked Lau for the Business Travel Request Form with DED's approval. (* Leung was not copied of the request)</li><li>• In the afternoon, "Secretary A" <u>asked Lau again</u> if she had the approved form. Lau replied she had not received it yet. (* Leung was not copied of the enquiry) (At the same time, "Secretary A" also checked Leung's office to locate the form, but could not find it.)</li><li>• In the evening, Lau left for Paris and London as scheduled. (Before Lau took off, there was no record showing that Lau had passed the form with DED's approval to "Secretary A".)</li><li>• Both "Secretary A" and Lau did not alert Leung that the Business Travel Request Form was not received.</li></ul>
6 June 2006	<ul style="list-style-type: none"><li>• Upon her return, Lau submitted an application to the Finance Division, claiming expenses for the trip.</li></ul>



8 June 2006	<ul style="list-style-type: none"><li>• Lau was inquired by the Finance Division on whether she had stayed in London from 24 to 30 May for personal purposes. Lau replied that her stay in London was of personal vacation nature, and the annual leave was approved by DED and Leung in advance.</li><li>• The Finance Division requested Lau to submit the approved Business Travel Request Form. Lau replied that she would submit the Form.</li></ul>
12 June 2006	<ul style="list-style-type: none"><li>• <b>Leung learnt that the form was never received when Lau re-submitted a Business Travel Request Form to her for recommendation endorsement.</b></li><li>• Lau re-submitted a Business Travel Request Form to DED for approval.</li><li>• Upon receiving the Business Travel Request Form, DED asked Leung why Lau re-submitted the form (since she had already disapproved the request).</li><li>• Leung replied that she had asked "Secretary A" and Lau. (Both "Secretary A" and Lau could not locate the original form submitted; and Lau didn't know the request was disapproved.) Leung said that if she knew that in advance, she would have discussed with the Executive Director and the DED, and might have advised Lau not to join the activity.</li><li>• Leung said that in the future, she would seek DED's approval before allowing subordinates to take on business trips.</li><li>• DED approved Lau's business travel request.</li></ul>

Remarks

Note 1: HKTB's Strategic Planning Department organises market review in overseas markets at irregular intervals to understand the market development trends.

Note 2: HKTB's staff handling overseas marketing would be sent to participate in market research activities in source markets, in order to gather first-hand information of market developments.

Note 3: According to HKTB's Financial Policies and Procedures, business travel request of Manager grade must be approved by the Division's General Manager. In the absence of General Manager in the Division, the Executive Director or DED's approval must be sought. Senior Manager of a Division can only recommend Managers to go on business trips, but they have no approval authority.

When the case took place, Leung was the Senior Manager of the Division, and there was no General Manager. It was not until May 07 that Leung was promoted to the General Manager position of the Division.

---

**From:** Sandy Lau  
**Sent:** Wednesday, May 03, 2006 12:46 PM  
**To:** Claire Lau  
**Subject:** RE: Business Trip

---

2006 年 5 月 3 日

Dear Claire

Have asked Farrington to book air tix for you. Just fyi, it's the formal procedure of business travel stated in IntraNet. Finance needs Glee's approval finally.

Thanks  
 SaL

#### 1.1.1 Approval Hierarchy

a) Up to Assistant Manager	Recommend Manager	Approve Senior Manager/ General Manager (if no SM)/ Either of ED or Deputy Executive Director (if no GM)
b) Manager	Senior Manager	General Manager/ Either of ED or Deputy Executive Director (if no GM)
c) Senior Manager	General Manager	Either of ED or Deputy Executive Director
d) General Manager	-	Either of ED or Deputy Executive Director
e) Deputy Executive Director	-	ED
f) Executive Director	-	Chairman of the Board

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**From:** Claire Lau  
**Sent:** Wednesday, May 03, 2006 12:36 PM  
**To:** Sandy Lau  
**Subject:** RE: Business Trip

Yes I will. It's recommended and approved by Cynthia, except the few days of annual leave which I need to get her approval upon her return. Just like to start booking the air as I need to advise SP asap. Will keep you posted. Thanks...Claire

---

**From:** Sandy Lau  
**Sent:** Wednesday, May 03, 2006 11:58 AM  
**To:** Claire Lau  
**Subject:** RE: Business Trip

Dear Claire

Pls be reminded to fill in Business Travel Request Form before your trip as it needs Glee's approval too.

Thanks  
 SaL

---

2006 年 5 月 8 日

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**From:** Claire Lau  
**Sent:** Monday, May 08, 2006 3:46 PM  
**To:** Sandy Lau  
**Cc:** Eliza Cheng  
**Subject:** FW: My BT

Dear Sandy,

FYI, too. Will fill in the form as per your advice.

Cheers...Claire

---

**From:** Cynthia Leung  
**Sent:** Monday, May 08, 2006 3:32 PM  
**To:** Claire Lau  
**Subject:** RE: My BT

Sure. Am happy with the below.

---

**From:** Claire Lau  
**Sent:** Monday, May 08, 2006 3:28 PM  
**To:** Cynthia Leung  
**Subject:** My BT

Dear Cynthia,

Further to your email to SP re the Market Study trip to Paris and London, please find below a summary of my trip fyi :

16 May (Tue)

Late night flight to Paris (with Jacqueline and Ken)

17 May (Wed)

Full day for Focus Group

18 May (Thu)

Site visit to Lina's Store (the co-op partner for the major integrated campaign in France for this FY)

Trade In-depth interview/ and Focus Group

19 May (Fri)

More Focus Groups

20 May (Sat)

Depart with SP team to London

22 May (Mon)

Full day Meeting with FCB, trade and agency visits arranged by Sue

-----Original Message-----

From: Claire Lau

Sent: Friday, May 12, 2006 10:46 AM

To: Carman So (CS)

Cc: Sandy Lau

Subject: RE: itinerary for Ms Lau's to Europe

2006 年 5 月 12 日

Dear Carman,

Please confirm my booking as follows :

16 May

Dep Hong Kong on CX261 2355

Arr Paris 0650\* (on 17 May)

20 May

Dep Paris on BA305 0940

Arr London 1005

30 May

Dep London on CX254 2235

Arr Hong Kong 1750\* (on 31 May)

Please confirm all aisle seats for me and please DO NOT include my Asia Mile Membership No. I'll do so when I check-in.

Many thanks...Claire

-----Original Message-----

From: Carman So (CS)

Sent: Monday, May 08, 2006 5:52 PM

To: Claire Lau

Subject: itinerary for Ms Lau's to Europe

<<ITIN\_IMLJOB\_0508175123.rtf>>

---

**From:** Rita Wong  
**Sent:** Monday, May 15, 2006 9:44 AM  
**To:** Sandy Lau  
**Subject:** RE: CLau's Business Travel Request Form?

2006 年 5 月 15 日  
(即「劉」出發前一天)

Dear Sandy  
It's now on its way to CL.  
thanks

---

**From:** Sandy Lau  
**Sent:** Friday, May 12, 2006 7:15 PM  
**To:** Rita Wong  
**Subject:** CLau's Business Travel Request Form?

Dear Rita

I've passed Claire's Business Travel Request Form (together w her Leave Application Form) for GLee's approval. The Leave Application Form is returned to us today. Is the Business Travel Request Form still with you?

Thanks  
SaL

-----Original Message-----

From: Sandy Lau  
Sent: Tuesday, May 16, 2006 11:05 AM  
To: Claire Lau  
Subject: RE: itinerary for Ms Lau's to Europe

-----  
2006年5月16日  
(即「劉」出發當天)

Dear Claire

Believe FAE has sent you the finalised e-tix and itin. Pls pass a copy/email to me as I need it to settle payment. Also if you've received the Business Travel Request Form approved by GLee, pls pass a copy to me too.

Many thanks  
SaL

-----Original Message-----

From: Claire Lau  
Sent: Friday, May 12, 2006 10:46 AM  
To: Carman So (CS)  
Cc: Sandy Lau  
Subject: RE: itinerary for Ms Lau's to Europe

Dear Carman,

Please confirm my booking as follows :

16 May  
Dep Hong Kong on CX261 2355  
Arr Paris 0650\* (on 17 May)

20 May  
Dep Paris on BA305 0940  
Arr London 1005

30 May  
Dep London on CX254 2235  
Arr Hong Kong 1750\* (on 31 May)

Please confirm all aisle seats for me and please DO NOT include my Asia Mile Membership No. I'll do so when I check-in.

Many thanks...Claire

-----Original Message-----

From: Carman So (CS) [REDACTED]  
Sent: Monday, May 08, 2006 5:52 PM

-----Original Message-----

From: Sandy Lau  
Sent: Tuesday, May 16 2006 2:09 PM  
To: Claire Lau  
Subject: RE: eTicketReceiptPrint for 16May to Europe

2006年5月16日  
(即「劉」出發當天)

Thanks, Claire. Do you have the approved Business Travel Request from from GLee too?

Thanks  
Sal

-----Original Message-----

From: Claire Lau  
Sent: Tuesday, May 16, 2006 11:11 AM  
To: Sandy Lau  
Subject: FW: eTicketReceiptPrint for 16May to Europe

Hi Sandy,

Sorry forgot to copy you.

Cheers...Claire

-----Original Message-----

From: Carman So (CS) [REDACTED]  
Sent: Monday, May 15, 2006 11:23 AM  
To: Claire Lau  
Subject: eTicketReceiptPrint for 16May to Europe

Hi Claire,

Herewith e-ticket copy with itinerary FYI.

Please ensure passport validity 6 months and holding valid entry visa to about countries.

Invoice will post to you later.

Have a nice trip  
Carman

<<eTicketReceiptPrint.htm>> <<ITINERARY.rtf>>



-----Original Message-----

From: Claire Lau

Sent: Tuesday, May 16, 2006 2:10 PM

To: Sandy Lau

Subject: RE: eTicketReceiptPrint for 16May to Europe

2006年5月16日  
(即「劉」出發當天)

Not yet. Will pass it to you if I get it back. May be via Cynthia though...

-----Original Message-----

From: Sandy Lau

Sent: Tuesday, May 16, 2006 2:09 PM

To: Claire Lau

Subject: RE: eTicketReceiptPrint for 16May to Europe

Thanks, Claire. Do you have the approved Business Travel Request from from GLee too?

Thanks

SaL

-----Original Message-----

From: Claire Lau

Sent: Tuesday, May 16, 2006 11:11 AM

To: Sandy Lau

Subject: FW: eTicketReceiptPrint for 16May to Europe

Hi Sandy,

Sorry forgot to copy you.

Cheers...Claire

-----Original Message-----

From: Carman So (CS) [REDACTED]

Sent: Monday, May 15, 2006 11:23 AM

To: Claire Lau

Subject: eTicketReceiptPrint for 16May to Europe

Hi Claire,

Herewith e-ticket copy with itinerary FYI.

Please ensure passport validity 6 months and holding valid entry visa to about countries.

Invoice will post to you later.

2006 年 6 月 12 日

Ada Lau

---

From: Kim Put  
Sent: Wednesday, June 14, 2006 3:35 PM  
To: Ada Lau  
Subject: FW: CLau's Business Travel Request Form?

Pls keep

-----Original Message-----

From: Patricia Lam  
Sent: Tuesday, June 13, 2006 7:15 PM  
To: Agnes Ngai; Kim Put; Jessica Tsui  
Subject: FW: CLau's Business Travel Request Form?

Pls keep to trip report & tix payment for future ref.

-----Original Message-----

From: Grace Lee  
Sent: Tuesday, June 13, 2006 2:48 PM  
To: Patricia Lam  
Subject: FW: CLau's Business Travel Request Form?

Dear Pat,

For payment record re: a trip undertaken by Claire to France for market study. The trip was disapproved. However CCPR claimed that they have not received the 'disapproved' form back from DO. Claire therefore went ahead. The following e-mail arose yesterday when Claire re-submitted the form for approval.

Grace

-----Original Message-----

From: Grace Lee  
Sent: Monday, June 12, 2006 10:54 PM  
To: Cynthia Leung  
Subject: Re: CLau's Business Travel Request Form?

Dear Cynthia,

Under the circumstances, we have no choice but to approve the trip. Pls make sure all trips are approved prior to travel.

Grace

-----Original Message-----

From: Cynthia Leung [REDACTED]  
To: Grace Lee [REDACTED]  
Sent: Mon Jun 12 20:45:22 2006  
Subject: RE: CLau's Business Travel Request Form?

Dear Grace

I just checked. As per below email from Rita, she thought it was already on the way and to my office finally. Pls note that Sandy is not only my secretary but also the secretary for the whole OPR team, she has to provide admin. support to the team. I can understand why she won't follow up everything thoroughly. FYI - I work quite independently and for any internal mail or incoming are all handled by myself and based on previous experience, it's very okay for this work flow. I just tried my best to lessen my colleagues' workload.

I really don't want to put the blame to Sandy. I think the root of the problem is that I haven't sought you/Clara's approval prior to making commitment to my team members. That's probably my fault.

Rdgs  
Cynthia

---

From: Grace Lee  
Sent: Monday, June 12, 2006 8:34 PM  
To: Cynthia Leung  
Subject: RE: CLau's Business Travel Request Form?

Dear Cynthia,

Before we give you a reply on this, I suggest you ask Sandy to advise why she has not followed up with Rita again after not having received the form back. We could have addressed this issue before Claire's departure, and not after she has done the trip already.

Grace

---

From: Cynthia Leung  
Sent: Monday, June 12, 2006 8:22 PM  
To: Grace Lee  
Subject: RE: CLau's Business Travel Request Form?

Dear Grace

I did check with Sandy when Clair re-submitted the form for my signature.

I'd like to give you more background about why I asked Claire to join this focus group study. I got an email from SP and asked if myself or any of my colleagues would like to join. I preferred staying in HK for other jobs but thought it would be great for Claire to join. I personally did learn a lot from the focus group which helped me in shaping media angles, sharing with the press, etc. Since I was asked by SP, I thought it would not be a problem if I assigned anyone to go. If Clara and yourself had concern on the no. of people traveled to Europe for this focus group, I definitely would discuss with you and might ask Claire "don't go".

Since she went already, I don't know what I can do so that you would approve it. However, she

did achieve a lot in the trip which she also had meetings with RDs and PR agencies re the upcoming PR projects.

In future, I would definitely ask for your approval before allowing any of my staff to travel overseas.

Rdgs  
Cynthia

---

From: Grace Lee  
Sent: Monday, June 12, 2006 8:09 PM  
To: Cynthia Leung  
Subject: FW: CLau's Business Travel Request Form?

Dear Cynthia,

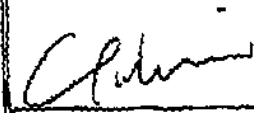
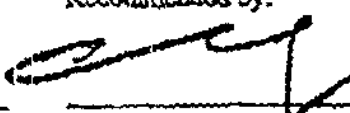
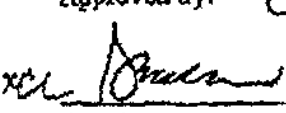
Sandy did enquire with Rita that the business request form was not received together with the leave application form on 12 May. Therefore if the form was still not received after Rita's reply, would she not have followed up with Rita again ? I suggest you ask Sandy to search her files.

Grace

2006年6月12日

**HONG KONG TOURISM BOARD**  
**"BUSINESS TRAVEL REQUEST" FORM**

*Re-submitted on 12/6*

<b>PART A</b>				
Name: <u>Clare Lau</u>		Title/Dept: <u>Manager, CCR</u>		
Name on Passport: <u>LAU YEE MAN</u> <small>(underline surname)</small>		Purpose of Travel: <u>France Market Study &amp; UK Market Review</u>		
Requested Itinerary:				
From	To	Date of Travel	Class	
HK	Paris	16 May 2006	Y	
Paris	London	20 May 2006	Y	
London	HK	24 May 2006	Y	
<b>PART B</b>				
Proposed Itineraries:				
	Routing	Flight/Date	Applicable Fare	Remarks
Option One:	HK/Paris	CX261 16/5	HK\$ 5,050 + tax	
Option Two:	Paris/London	BA381 20/5		
	London/HK	CX294 30/5	(25-30/5 personal stay)	
<b>PART C</b>				
Preferred option: _____		Budget code: <u>012 401 021 100</u>		
The more expensive option is chosen because _____				
Tel name: _____		Cost / night: _____		
Recommended by:		Approved by:		
 _____ Signature of Applicant		 _____ (applicant to get recommendation from department manager / senior manager / general manager) Approved by: <i>(refer to 2nd on 12/6/06)</i>  _____ (applicant to get approval from senior manager / general manager / directorate office)		
Applicant - take 1 photocopy of form for Financial Management Department reference and 1 photocopy for Industry Training & Human Resources Department for baggage insurance purpose.				

政府總部  
公務員事務局  
香港中環雪廠街11號  
中區政府合署西座



**CIVIL SERVICE BUREAU  
GOVERNMENT SECRETARIAT**  
WEST WING  
CENTRAL GOVERNMENT OFFICES  
11 ICE HOUSE STREET  
HONG KONG

本函檔號 Our Ref.: (80) in CP 36/37 VII  
來函檔號 Your Ref.: CB(3)/PAC/R49

電話號碼 Tel. No.: 2810 2142  
傳真號碼 Fax No.: 2868 5069  
電郵地址 E-mail Address: csbts@csb.gov.hk  
網址 Homepage Address: <http://www.csb.gov.hk>

18 January 2008

Clerk to Public Accounts Committee  
Legislative Council Building  
8 Jackson Road, Central  
Hong Kong  
(Attn. Ms Serena CHU)

Dear Ms CHU,

**The Director of Audit's Report on the  
Results of value for money audits (Report No. 49)**

**Chapter 5 : Hong Kong Tourism Board (HKTB)  
Corporate governance and administrative issues**

Thank you for your letter of 15 January 2008 requesting the Administration to provide information regarding the civil service policy on whether a civil servant may combine his overseas duty trip with his personal trip by taking vacation leave and if so, whether the civil servant concerned is required to bear part of the travelling expenses for the duty trip.

Vacation leave is provided to civil servants for the purposes of recuperation from the pressure of work and attending to personal matters etc. A civil servant may take his earned vacation leave provided that approval has been given by the relevant authority.

Duty visits may only be undertaken by civil servants with approval from officers of specified ranks. Air passages in connection with an overseas duty trip are arranged by the bureau or department concerned in accordance with relevant Government regulations, rather than the officer himself. A civil servant who wishes 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, has to seek approval from his Head of Department or the Permanent

Secretary (if the officer travelling is a Head of Department). As stipulated under the Civil Service Regulations, such approval may only be given if the modification would not undermine the original justifications for the passage arranged; 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 is permitted to modify the passage(s) for his overseas duty trip for personal purposes and such modification results in a higher passage cost, the civil servant concerned is required to bear the additional expenses so incurred.

Yours sincerely,



(K S SO)  
for Secretary for the Civil Service

c.c. Secretary for Financial Services and the Treasury  
Secretary for Commerce and Economic Development  
Commissioner for Tourism  
Executive Director of the Hong Kong Tourism Board  
Director of Audit  
Hon Mrs Selina CHOW, GBS, JP  
Mr Stanley KO, BBS, JP  
Ms Clara CHONG  
Mrs Grace LEE



審計署  
香港灣仔  
告士打道七號  
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Audit Commission  
26<sup>th</sup> Floor  
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本署檔號 Our Ref.: UB/BAR/PAC/49 Vol. 3

來函檔號 Your Ref.: CB(3)/PAC/R49

16 January 2008

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

(Attn.: Ms Serena CHU)

Dear Ms CHU,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 49)**

**Chapter 5: Hong Kong Tourism Board (HKTB):  
Corporate governance and administrative issues**

Thank you for your letter dated 15 January 2008 requesting the Audit Commission (Audit) to provide information concerning the respective dates of application for business travel in respect of Cases D1 to D7 referred to in Appendix G of the Audit Report.

Audit is unable to ascertain the dates of application for Cases D2 and D5. For Case D2, which is the case referred to in Appendix F of the Audit Report, the Business Travel Request Form concerned could not be located (sub-paragraph (a) of the first paragraph of the HKTB's letter of 11 December 2007 to the Public Accounts Committee refers). For Case D5, the date of application was not stated in the Business Travel Request Form.

The dates of application for the other five cases are as follows:

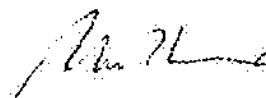
Case	Date of application
D1	12/5/2006
D3	19/5/2006
D4	29/5/2006
D6	11/12/2006
D7	10/1/2007



The Public Accounts Committee may wish to note in paragraph 6.20 of the Audit Report that air tickets had been purchased before approvals were obtained. Audit considers that the HKTB needs to ensure that air tickets are purchased only after approval is obtained.

A Chinese translation of this letter will be forwarded to you shortly.

Yours sincerely,



(David M T LEUNG)  
for Director of Audit

c.c. Secretary for Commerce and Economic Development  
Commissioner for Tourism  
Executive Director of the HKTB  
Secretary for Financial Services and the Treasury  
Hon Mrs Selina CHOW, GBS, JP  
Mr Stanley KO, BBS, JP  
Ms Clara CHONG  
Mrs Grace LEE

9th-11th Floors, Citicorp Centre, 18 Whitfield Road, North Point, Hong Kong  
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香港北角威非路十八號萬國寶通中心九樓至十一樓  
 電話 +852 2807 6543 傳真 +852 2806 0303 網址 DiscoverHongKong.com 電郵 info@hktb.com

## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
 14 February 2008  
By Email and By Hand  
 Public Accounts Committee  
 Legislative Council  
 G/F., Legislative Council Building  
 8 Jackson Road, Central HK  
 Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

---

We refer to your letter of 1 February 2008 and would like to provide information as follows:

(a) The amount of the consultancy fee for the HKTb's Compensation and Benefits Study conducted by the Hay Group in 2003 is HK\$655,500.

(b) The HR practices established before 2005 include the followings and related documents are attached. The documents are either posted onto the Company's intranet or distributed to the staff concerned at the time when it was issued.

- Long Service Award/ Retirement Gift issued on 5 February 1998
- Secondment Policy issued around March 1999
- Internal Transfer issued on 1 September 2004
- Overtime & Meal Allowances issued on 1 September 2004
- Shift & Airport Allowance issued on 1 September 2004
- Training Policy issued on 1 September 2004
- Personal Data Protection issued on 1 September 2004
- Disciplinary Policy issued on 1 September 2004
- Equal Employment Opportunity issued on 1 September 2004
- Tax Subsidy Scheme issued on 8 September 2004
- Salary Administration issued on 1 September 2004 and revised on 6 August 2007

(c) Between 2001 and 2004, there are totally 8 staff appointed/ recruited to 5 General Manager positions and we can only locate the endorsement of the Staff & Finance Committee in the form of meeting minutes for the appointment of the position, General Manager, Tourism Marketing. Extract of relevant paper and minutes is attached.

*\*Note by Clerk, PAC: Attachments in items (b) and (c) not attached.*

(d) In response to paragraph 6.22(e) of the Audit Report, the HKTB has conducted a review by benchmarking the existing policy of HKTB with that of 7 private companies, 6 quasi-government organizations and the HKSAR Government. A summary of the benchmarking results is provided in Appendix 1.

Due to confidentiality agreement between the HKTB and the benchmarking organizations, HKTB cannot disclose the names of these organizations without obtaining prior consent from them.

Based on the benchmarking study, the HKTB has revised its travel class entitlement policy, and the new policy is effective since 1 Feb 2008. Details of the revised policy is as follows:

	Old Policy (before 1 Feb 2008)		Revised Policy (Effective from 1 Feb 2008)	
Grade/Level	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time
Chairman	Business	all	Business (Note 1)	all
Executive Director	Business	all		
Deputy Executive Director				
General Manager, Regional Director	Business	> 9 hours	Business	> 9 hours
Senior Manager		Economy		
	Economy		Economy (Note 2)	< = 9 hours
Manager and below	Economy	all	Economy (Note 2)	all

Note 1:

Staff is encouraged to travel on Economy Class for short flights where the flying time is less than 4 hours.

Note 2:

Under the following circumstances the staff could apply for upgrade from Economy Class to Business Class, and approval has to be sought from the ED in advance:

- where the staff has to travel again within 7 calendar days from his last return from duty or where the staff is subject to a tight flight schedule of no less than 3 flights within 5 days; or
- where the appropriate class of travel is not available on the route concerned and the choice of other flights is not appropriate for the purpose of the visit; or
- where the staff is required on duty to travel in the same class with another person taking a higher class of travel; or
- where the staff is required to work on the day of arrival at the destination after an overnight flight (*existing HKTB guideline*).

No upgrading will be allowed –

- for the outward journey to duty place, if the staff takes leave outside of Hong Kong before duty is performed; or

(b) for the return journey to Hong Kong, if after performance of duty or upon arrival in Hong Kong, the staff takes leave.

(c) Breakdown of the total expenditure for Case 2 referred to in Table 10 of paragraph 6.7 of the Audit Report is as follows:

			HK\$
Dinner	-food	67,993.20	
	-beverage	565.40	68,558.60
Wine			27,302.00
Total amount			<u>95,860.60</u>
			=====

As there is no standard rental rate for the function room used by HKTB under Case 2, staff concerned has used standard rate of a similar room at the same venue to calculate the estimated venue rental for management's reference. Daily rate for a similar room is \$15,000 x 1.5 days = \$22,500. This amount was not separately listed in the related invoice.

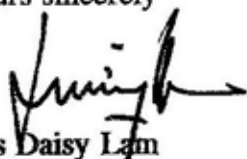
(f) The HKTB is working on the new policy for project-related entertainment expenses. Since more time is required for internal consultation, we plan to have the new policy submitted to the Staff and Finance Committee for approval by end May 2008.

The above may include personal or commercial sensitive data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals and corporations mentioned in those documents or information be masked.

We understand that the PAC will copy our response to relevant parties attending the hearing. For those who are unable to attend the hearing, the PAC will provide copy to them on the same day by mail.

Thank you for your kind attention to our request.

Yours sincerely



Mrs Daisy Lam  
Deputy Executive Director  
Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

	HKTB		Org1		Org2		Org3		Org4		Org5		Org6	
Grade/Level	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time
Executive Director / CEO / President	Business	All	First	All	Business	All	Business	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business*	All	First Business	Over 7 hours Asia & all journeys less than 7 hours
Deputy Executive Director / VP	Business	All	Business	All	Business	All	Business	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business Economy	Inter-continental others	N/A	
General Manager	Business	All	Business	All	Business	All	Business	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business Economy	Inter-continental others	Business Economy	Over 7 hours Asia & all journeys less than 7 hours
Senior Manager	Business Economy*	Greater than 9 hours Less or equal to 9 hours	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business Economy	Over 8 hours Less or equal to 8 hours	Economy (may be upgraded to Business if flying time > 9 hours)	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business Economy	Inter-continental others	Economy	All
Manager & below	Economy*	All	Economy	All	Economy	All	Economy (may be upgraded to Business if flying time > 9 hours)	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business Economy	Inter-continental others	Economy	All
Last revision date of business travel entitlement policy			2006		1-Dec-06								1-Nov-03	
Remarks	* Under certain conditions staff could apply for Business class, however approval has to be sought from ED in advance.				No upgrading of travel class is allowed. All requests for overseas business travel should be approved by the relevant Director or by the CEO if the traveller is a Excom member		Under the following circumstances, request for upgrading of travel class may be considered: 1) staff has to travel again within 7 calendar days from his last return or the staff is subject to a tight flight schedule, i.e. no less than 3 flights within 5 days; 2) staff is required on duty to travel in the same class with another person taking a higher class of travel; 3) the appropriate class of travel is not available and choice of other flight is not appropriate. The approval procedure is 1) the staff to seek endorsement from Dept Head; 2) forward the form to Financial Control Dept for checking budget; and 3) seek approval from the delegated authority.		If the aircraft only provides 2-class seating configuration, staff is allowed to go for the higher class. Otherwise, upgrade to the next higher class of the flight service permissible under this policy for all staff must be authorized by the Chief Executive Officer, or in his absence, the Chief Operating Officer on a case by case discretionary basis.		* Staff are encouraged to take lower class for short flights Upgrade of air passage to Business Class may be approved by DCE under the following conditions: (a) Staff has a busy & difficult travelling schedule - more than one flight within the same day - regional flights again within 7 days (e.g. to India) - need to travel again within 7 days (b) Appropriate class is not available (c) More than 5-hour flight & need to perform official duty on the same day		Under the following circumstances, permission may be granted at the discretion of Director or his/her delegate(s) for Economy Class to Business Class comfort (e.g. discretionary upgrading by the airline or by transferring to a different carrier): (a) long haul journeys; and (b) the individual is a frequent business traveller; and (c) the traveller is required to attend meetings on the same day upon arrival; and (d) applicable on the outward journey only; and (e) the business trip is not for training purpose. Application for upgrading should be submitted well in advance.	

	HKTB		Com1		Com2		Com3		Com4		Com5		Com6		Com7	
Grade/Level (please elaborate)	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time	Class of Air Travel	Flying Time
Executive Director / CEO / President	Business	All	Business (upgrade from Economy)	Long Haul	Business Economy	Greater than 6 hours Less or equal to 6 hours	Business		Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	First Business	Greater than 5 hours Less or equal to 5 hours	Business	All	Business	All
Deputy Executive Director / VP	Business	All	Business (upgrade from Economy)	Long Haul	Business Economy	Greater than 6 hours Less or equal to 6 hours	Business		Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	Business	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business	All
General Manager	Business	All	Business (upgrade from Economy)	Long Haul	Business Economy	Greater than 6 hours Less or equal to 6 hours	Business		Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	Business	All	Business Economy	Greater than 3 hours Less or equal to 3 hours	Business	All
Senior Manager	Business Economy	Greater than 9 hours Less or equal to 9 hours	Economy	All	Business Economy	Greater than 6 hours Less or equal to 6 hours	Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	Business Economy	Greater than 5 hours Less or equal to 5 hours	Business Economy	Greater than 6 hours Less or equal to 6 hours	Business (upgrade from Economy) Economy	Greater than 6 hours and outside Asia Less or equal to 5 hours
Manager & below	Economy	All	Economy	All	Economy	All	Business (upgrade from Economy) Economy	Greater than 5 hours Less or equal to 5 hours	Economy	All	Business Economy	Greater than 5 hours Less or equal to 5 hours	Economy	All	Economy	All
Remarks							Upgrade of other travel entitlements is allowed for legitimate business reasons, e.g. staff could upgrade the airticket/hotel to the same class as the senior executive (customer) whom they are travelling with, subject to the prior written approval by CE.				At the discretion of the subsidiary Managing Director or the respective Group Executive Committee, the class of air travel may be upgraded to next higher class on an exceptional basis, e.g. overnight flights. In exercising this discretion, the circumstances of the request and the cumulative impact of such approvals on travel costs must be duly assessed.		- Group General Managers and above: First Class for greater than 3 hours & Business Class for less or equal to 3 hours - Employees are requested to follow the travel policy as listed above and no upgrade of travel class is allowed under normal circumstances			

Hong Kong Tourism Board

Distribution of Expenditure for 05/06 and 06/07

	Marketing Research (HK\$M)	Strategic Planning (HK\$M)	Consumer Marketing and Communications (HK\$M)	Tourism Marketing (HK\$M)	Corporate Communications and Public Relations (HK\$M)	Destination Marketing (HK\$M)	Total (HK\$M)
FY 05/06	17.38	1.94	202.85	84.58	50.39	115.40	472.54
FY 06/07	17.21	2.48	177.60	66.20	59.2	121	443.69

# Hong Kong Tourism Board - Marketing Budget by markets

(\$ million)	Approved Budget 2006/07						Staff Business Travel Expenses (note 2)
	Trade Marketing	Business Development	Consumer Marketing & Communications	Promotional Materials & Distribution	Publicity Programmes	Total	
Market							
Mainland (note 1)	2.50	0.55	33.73	0.80	5.31	42.89	0.62
USA	4.79	1.79	21.25	2.47	6.37	36.67	0.61
Japan	6.50	1.25	13.40	4.10	9.75	35.00	0.35
Taiwan	2.20	0.54	10.09	1.12	6.05	20.00	0.00
UK	3.49	0.78	6.60	0.75	7.09	18.71	0.23
South Korea	1.84	0.35	10.03	0.32	1.76	14.30	0.02
Australia	1.70	2.90	6.32	0.62	1.90	13.44	0.34
Germany	1.75	0.14	4.86	0.40	2.57	9.72	0.22
Singapore	0.84	0.12	4.81	0.26	1.80	7.83	0.02
Canada	0.67	0.01	3.32	0.41	2.16	6.57	0.09
India	0.44	0.07	3.49	0.13	1.64	5.77	0.13
Thailand	0.51	0.12	2.86	0.18	1.98	5.65	0.11
France	0.93	0.55	2.09	0.29	1.76	5.62	0.09
Philippines	0.63	-	2.79	0.15	1.92	5.49	0.08
Malaysia	0.36	0.07	1.72	0.12	1.60	3.87	0.10
Indonesia	0.18	-	1.34	0.12	0.88	2.52	0.04
Other countries in Europe	3.22	0.27	3.29	0.15	2.69	9.62	0.17
New Zealand	0.16	-	0.39	-	0.21	0.76	0.07
South and Central America	0.38	-	0.22	0.07	0.07	0.74	0.02
	33.09	9.51	132.60	12.46	57.51	245.17	3.31

Note 1: Included China Development Fund of \$13.6 million.

Note 2: Budget was not estimated for project-related business travel. Actual expenses incurred by HKTb staff are extracted for reference.



**Marketing budget and visitor arrivals from markets for 2006-07**  
**(Appendix D in para. 2.13 of Chapter 6 of the Audit Report refers)**

<b>Market</b>	<b>Budgeted marketing expenditure for 2006-07 (\$ million) (a)</b>	<b>Arrivals in 2006 ('000) (b)</b>	<b>Arrivals in 2006 (Forecast) ('000)</b>	<b>Marketing expenditure per visitor (\$) (c) = (a)/(b)</b>
Mainland China	42.89	13,591	14,835	3.2
USA	36.67	1,159	1,253	31.6
Japan	35.00	1,311	1,424	26.7
Taiwan	20.00	2,177	2,411	9.2
UK	18.71	516	523	36.3
South Korea	14.30	719	792	19.9
Australia	13.44	564	609	23.8
Germany	9.72	214	224	45.4
Singapore	7.83	588	665	13.3
Canada	6.57	336	334	19.6
India	5.77	294	320	19.6
Thailand	5.65	396	462	14.3
France	5.62	201	206	28.0
Philippines	5.49	454	458	12.1
Malaysia	3.87	446	453	8.7
Indonesia	2.52	324	277	7.8
Other Europe	9.62	617	591	15.6
New Zealand	0.76	98	100	7.8
South and Central America	0.74	136	124	5.4
Others	—	1,110	1,080	N.A.
<b>Total</b>	<b>245.17</b>	<b>25,251</b>	<b>27,141</b>	<b>9.7</b>

Notes:

Priority markets include Mainland China, USA, Japan, Taiwan and South Korea

Primary markets include UK, Australia, Singapore, Thailand and the Philippines

Secondary markets include Germany, Canada, France, Malaysia and Indonesia

Emerging market includes India

Other markets include other European countries, New Zealand, South and Central America and Others

Source: HKTB records

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
 3 March 2008  
By Email and By Hand  
 Public Accounts Committee  
 Legislative Council  
 G/F., Legislative Council Building  
 8 Jackson Road, Central HK  
Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 5

We refer to your letter of 27 February 2008 and would like to provide information as follows:

(a)(i) breakdown of the number of visitors served in 2006 by the Beijing visitor information and service (VIS) centre into the number of walk-in visitors, telephone enquiries and email enquiries etc is as follows:

1 Jan – 31 Dec 2006	Total	Walk-in Visitors	Telephone Enquiries	Email Enquiries	Fax Enquiries
	32,836	22,088	10,407	332	9

(a)(ii) Apart from servicing visitors, Beijing VIS centre also promotes trade collaboration in Quality and Honest Tours. Various product knowledge training was provided since 2006 by our Beijing VIS centre information officers to the frontline PRC agents serving our Quality & Honest Tours counters in Beijing, Dalian, Shenyang, Harbin, Shanghai, Hangzhou and Nanjing. This indirectly helps to promote and facilitate Quality & Honest product sales. Below are the results of Quality & Honest product sales performance up till Jan 22, 2008:

City	Launch Date	No. of Co-op Agents	HK Tour Groups (Pax)	Q&H Tour Groups (Pax)	Q&H (Airtix + Hotel package)	% of Q&H products
Beijing	2006 Nov 14	5	65,691	4,049	18,943	35.00%
Shenyang	2007 Jul 25	1	3,476	621	422	30.01%
Dalian	2007 Jul 25	1	2,600	266	1,099	52.50%
Harbin	2007 Nov 15	1	680	130	40	25.00%
Shanghai	2006 Nov 16	4	74,000	9,300	16,200	34.46%
Nanjing	2007 Feb 2	2	48,300	6,100	5,100	23.19%
Hangzhou	2007 Apr 26	6	59,000	8,300	12,680	35.56%
TOTAL		22	488,969	216,285	54,674	55.41%

The lease of the Beijing VIS centre also brought along free outdoor advertising space (right outside the centre). Outdoor media value in the same commercial district costs around RMB600,000 per year.

(b) Actual expenditure of HK\$16.5 million for the International Chinese New Year Parade (Parade) in 2003-4 mentioned in note 18 under paragraph 4.2 of the Audit Report does not include expenditure on overseas promotion.

(c) The technology (ie Aqua graphic®) used in the “Aqua Fantasia” show in 2006 is created and perfected by Aquatique Show International. This is a patented technology. Information downloaded from Aquatique Show International website [www.Aquatique-Show.com](http://www.Aquatique-Show.com) is attached for reference. Per HKTB’s Financial Policies and Procedure Clause 16.5 on ‘Single Quote / Tender’, invitation from one single supplier can be adopted under certain special circumstances, including ‘copyright / patent / proprietary products or services can only be supplied by a particular supplier and where no reasonable alternative or substitute exists’. The relevant Financial Policy & Procedures’ extract is also attached for your information. According to the Procurement Guidelines, ED’s approval limit was up to \$5mn. As procurement amount for the “Aqua Fantasia” was estimated to be \$4mn, thus, Board / Committee approval was not required. The proposal to stage the “Aqua Fantasia” was presented to the Product & Event Committee at the 7 March 2006 Meeting.

(d) Regarding the title sponsorship for the Parade referred to in paragraphs 4.28 and 4.29 of the Audit Report,

- (i) The staff member responsible for negotiating 1999 title sponsorship was Mr Patrick Kwok, then Senior Manager, Events & Tours Department, currently General Manager, Tourism Marketing.

- (ii) The former General Manager, Destination Marketing, Mr Lambert Chan, did make enquiries with other companies to see if they were interested in providing title sponsorship to the Parade. These included Standard Chartered Bank, AIG and China Union Pay. Relevant email is attached for reference. Upon receipt of PAC's enquiry, we have made contact with Mr Lambert Chan and his reply is also attached.
- (iii) In connection with (ii) above, other than the email mentioned above, we cannot locate other records showing other companies had been approached. However, there were records of companies approached by HKTB soliciting interest on title sponsorship and float sponsorships for years 1999 and 2007 – also attached for reference.
- (iv) As the 2006 and 2007 parade sponsorship agreement signed with Company X was \$3.8mn for each Parade, it was within ED's approval limit of \$5mn, although the agreement covered a two-year period with total amount of \$7.6mn.
- (v) A copy of the respective sponsorship agreements with Cathay Pacific Airways and American Express for the 2008 Parade is attached. We consider the amount of cash sponsorship and the terms in return for the cash sponsorship commercially confidential and would appreciate the same not be included in the appendix of the PAC report and identities of corporations mentioned in those documents be masked.

Furthermore, we refer to your letter of 28 February 2008 and would like to provide the respective total expenditure, including and excluding overseas promotion, for the Parades in 2004, 2007 and 2008 as follows:

Heading	FY 2003/04 Actual (HK\$'mn)	FY 2006/07 Actual (HK\$'mn)	FY 2007/08 Budget (HK\$'mn)	FY2007/08 Actual** (HK\$'mn)
Event Staging & 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 entire CNY celebration period including the Int'l CNY Parade & other activities

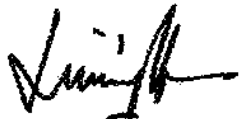
\*\* Budget originally agreed in Oct 07 but implemented series of cost savings measures to reduce event staging cost

The above may include personal or commercial sensitive data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals and corporations mentioned in those documents or information be masked.

We understand that the PAC will copy our response to the relevant parties.

Thank you for your kind attention to our request.

Yours sincerely



Mrs Daisy Lam  
Deputy Executive Director

Enc.

cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Executive Director, HKTB  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

*\*Note by Clerk, PAC: All the enclosures not attached.*

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## HONG KONG TOURISM BOARD 香港旅遊發展局

Your Ref: CB(3)/PAC/R49  
 10 March 2008  
By Email and By Hand  
 Public Accounts Committee  
 Legislative Council  
 G/F., Legislative Council Building  
 8 Jackson Road, Central HK  
 Attn: Ms Miranda Hon



Dear Ms Hon,

Re: The Director of Audit's Report on the results for value for money audits (Report No. 49) Chapter 6

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We refer to your letter of 5 March 2008 and would like to provide additional information as follows:

- (a) We find some meeting notes of the first meeting of the HKTA Board of Management – Marketing Sub-Committee held on 9 April 1999 which mentioned providing company X with a right of first refusal. Please refer to paragraph 3.1 of the attached meeting notes. Mr Patrick Kwok cannot recall further details about this right of first refusal.
- (b) HKTb (or HKTA) approached other companies for potential interest of sponsoring the Chinese New Year Parade as a contingency plan in case negotiation with company X for sponsoring the Parade in relevant year(s) cannot reach agreement ultimately.
- (c) We cannot locate records of other years showing HKTb (or HKTA) had approached other companies for sponsoring the Parade other than those we have already provided to the PAC in our letter of 3 March 2008.
- (d) HKTb has been following the approval limit under the existing Procurement Guidelines for signing sponsorship agreement. We take note of the need for a specific guidelines on the signing of sponsorship agreement. HKTb Management is now conducting a review in this regard and a proposal will be submitted to the Board/Committee for approval as appropriate.

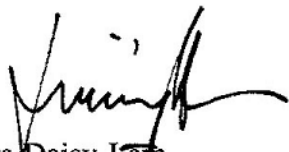
*\*Note by Clerk, PAC: Meeting notes in item (a) not attached.*

The above may include personal or commercial sensitive data and we appreciate the same not be included in the appendix of the PAC report and identities of individuals and corporations mentioned in those documents or information be masked.

We understand that the PAC will copy our response to the relevant parties.

Thank you for your kind attention to our request.

Yours sincerely



Mrs Daisy Lam  
Deputy Executive Director  
Enc.

Cc Secretary for Commerce and Economic Development (without enc)  
Commissioner for Tourism (without enc)  
Secretary for Financial Services and the Treasury (without enc)  
Director of Audit (without enc)  
Executive Director, HKTb (with enc)  
Hon Mrs Selina Chow (without enc)  
Ms Clara Chong (without enc)  
Mrs Grace Lee (without enc)

立法會議員

周梁淑怡 辦事處

新界西  
NT West

Office of The Hon. Mrs Selina Chow GBS OBE JP, Legislative Councillor

3<sup>rd</sup> March 2008

Ms Serena Chu  
for Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Serena,

Thank you for your letter dated 27<sup>th</sup> of February.

I would like to confirm that the Executive Director did have the authority to negotiate agreements pertaining to events which have been endorsed by the Products and Events Committee to be included in the annual business plan. Details of the execution of matters within the plan are left to the management. As far as I can recollect neither the committees nor the Board were involved in any negotiation of agreements relating to operation.

Yours sincerely,



Selina Chow

c.c.: Secretary for Commerce and Economic Development  
Commissioner for Tourism  
Executive Director of HKTB  
Secretary for Financial Services and the Treasury  
Director of Audit  
Ms Clara Chong  
Mrs. Grace Lee

Room 505, West Wing, Central Government Offices, 11 Ice House Street, Central, Hong Kong  
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## HONG KONG TOURISM BOARD 香港旅遊發展局

The Hon James Tien GBS, JP Chairman  
主席 田北俊議員 GBS, JP



Your Ref: CB (3)/PAC/R49

10 March 2008

Clerk, Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong  
Attn: Ms Serena Chu

Dear Ms Chu

### **The Director of Audit's Report on the Results of Value for Money Audits (Report No. 49)**

#### **Chapter 6: Hong Kong Tourism Board (HKTb) Planning, execution and evaluation of marketing activities**

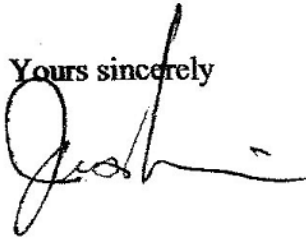
I am writing to respond to your letter dated 5 March 2008 concerning the approval authority in the Hong Kong Tourism Board (HKTb) for entering into a sponsorship agreement.

Since I only took up chairmanship of the Hong Kong Tourism Board in April 2007, I do not think it is appropriate for me to comment on the arrangements concerning the former Executive Director's authority to approve the sponsorship agreement for the International Chinese New Year Parade in 2006 and 2007.

As for the present arrangements, the HKTb management has been following the approval limit under the existing Procurement Guidelines for signing sponsorship agreements. As Chairman of the HKTb, I do consider there is a need for specific guidelines on the signing of sponsorship agreements. In particular, those agreements that involve substantial amount of money and span across more than one year should be submitted to the Board for consideration. I have therefore instructed the HKTb management to develop a set of guidelines on the signing of sponsorship agreements, and submit these to the Board/Committee for approval as appropriate.

Please feel free to contact me in case you have any questions or need further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Tien', with a stylized flourish extending to the right.

James Tien  
Chairman

香港特別行政區政府  
政務司司長辦公室



CHIEF SECRETARY  
FOR ADMINISTRATION'S OFFICE  
Government of the Hong Kong  
Special Administrative Region

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

7 November 2007

Dr Hon Philip WONG Yu-hong, GBS  
Chairman, Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear ~~Dr Wong~~, Philip,

**Government Minute in response to PAC Report No.48**

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

Thank you for your letter of 24 October 2007.

The primary focus of the limited review is on those Government-owned companies and statutory corporations as well as non-government-owned companies. The review covers the following major issues -

- (a) major roles and responsibilities of serving Government Directors;
- (b) legal position of Government Directors;
- (c) need for appointing/re-appointing Government Directors to individual companies and statutory corporations; and

- (d) ways to facilitate the Government Directors to perform their roles.

We are now in the process of consulting the relevant bureaux and departments. In view of the number of companies and statutory corporations as well as the complexity of the issues involved, it will take us some time to complete the review. We aim to report the outcome of the review to the PAC in the first half of 2008.

Finally, I wish to reiterate that the Administration's decision to conduct the review is a positive response to the PAC's recommendation. The Administration has no preconceived ideas on the outcome of the review and wish to dispel any concerns which may exist in this respect.

*Best Regards,*

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Henry Tang', with a stylized, flowing script.

( Henry Tang )  
Chief Secretary for Administration

cc Secretary for Commerce and Economic Development  
Secretary for Financial Services and the Treasury  
Director of Audit

## ACRONYMS AND ABBREVIATIONS

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Audit	Audit Commission
CC	Consumer Council
CE	Chief Executive
DED	Deputy Executive Director
ED	Executive Director
EDLB	Economic Development and Labour Bureau
FPP	Financial Policies and Procedures
FS	Financial Secretary
FY	Financial year
GM CCPR	General Manager, Corporate Communications and Public Relations
GM DM	General Manager, Destination Marketing
GM ITHR	General Manager, Industry Training and Human Resources
GM SPM	General Manager, Strategic Planning and Marketing
HKTA	Hong Kong Tourist Association
HKTB	Hong Kong Tourism Board
HKTDC	Hong Kong Trade Development Council
IVS	Individual Visit Scheme
KPIs	Key performance indicators
LegCo	Legislative Council
PMS	Performance management system
PSCIT	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
QTS	Quality Tourism Services
RRC	Remuneration Review Committee
SCED	Secretary for Commerce and Economic Development
SEDL	Secretary for Economic Development and Labour
SES	Secretary for Economic Services
TC	Tourism Commission
VIS	Visitor information and service
WWOs	Worldwide Offices