

CHAPTER 4

**Culture, Sports and Tourism Bureau
Create Hong Kong**

Hong Kong Design Centre

**Audit Commission
Hong Kong
31 March 2023**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 80 of the Director of Audit contains 8 Chapters which are available on our website at <https://www.aud.gov.hk>



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HONG KONG DESIGN CENTRE

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HONG KONG DESIGN CENTRE

Executive Summary

1. Hong Kong Design Centre (HKDC) is the Government's main partner in promoting design and related creative industries. It is a non-profit making organisation established in 2001. Create Hong Kong (CreateHK), under the purview of the Culture, Sports and Tourism Bureau (CSTB) headed by the Secretary for Culture, Sports and Tourism, is responsible for overseeing HKDC, and the administration and management of the CreateSmart Initiative (CSI), a funding scheme that provides financial support to projects conducive to the development of creative industries in Hong Kong. The Permanent Secretary for Culture, Sports and Tourism is the Controlling Officer of CSI. For the period from 2022-23 to 2024-25, dedicated funding of \$268 million from CSI has been earmarked for HKDC. HKDC's activities included the promotion of Hong Kong's creative industries by organising five flagship programmes, two incubation programmes and other projects. The Audit Commission (Audit) has recently conducted a review of HKDC.

Flagship programmes

2. *Need to monitor implementation of Business of Design Week (BODW) City Programme events.* To monitor the implementation of events without HKDC funding, BODW City Programme partners are required to provide the numbers of participants and event photos to HKDC, and HKDC will arrange site visits to selected events to ascertain the performance of the partners and the quality of the events. Audit noted that, of the 463 events conducted in the period from 2018-19 to 2021-22, the partners of 189 (41%) had not provided the numbers of participants and the partners of 80 (17%) had not provided event photos to HKDC. Furthermore, other than the records of travel expenses claimed by staff, HKDC did not have documentary records relating to the site visits conducted to ascertain the performance of the partners and the quality of events (paras. 2.5 and 2.6).

3. *Requirements on event promotion not complied with by BODW City Programme partners.* Up to 31 January 2023, BODW City Programme 2022 had rolled out 86 events. In December 2022 and January 2023, Audit conducted site visits to 6 of the 86 events and examined the social media pages of the partners of all the

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86 events. Audit noted that the requirements on event promotion were not complied with by a number of BODW City Programme partners. The partner of 1 (17%) of the 6 events visited by Audit did not put up BODW City Programme signage, posters, table tent cards or the equivalent at the event area. There were posts relating to the BODW City Programme events in the social media of the partners of 70 (81%) of the 86 events. For 30 (43%) of the 70 events, the partners did not acknowledge the events as BODW City Programme events nor applied tags or hashtags on the events' social media posts (para. 2.9).

4. ***Need to improve performance evaluation of BODW.*** The number of business contacts or enquiries received by event participants is set as a key performance indicator for BODW. Since July 2011, CreateHK has required HKDC to collect feedback from participants using a standard questionnaire on how useful BODW is in assisting them to expand their contact network and explore new business opportunities. Audit noted that in the period from 2017-18 to 2021-22, HKDC did not have information on the number of business contacts or enquiries received by event participants and did not report such information to CreateHK. In 2018-19, 30% of the respondents rated the programme as “fair” or “not useful” in assisting them to expand their contact network, and 33% of the respondents rated the programme as “fair” or “not useful” in assisting them to explore new business opportunities. Audit also noted that, since 2020-21, HKDC had used a customised questionnaire for its survey which did not include questions on usefulness of BODW (paras. 2.13 and 2.14).

5. ***Delays in commencement of work attachments or studies outside Hong Kong.*** Awardees of the CreateSmart Young Design Talent Award and CreateSmart Young Design Talent Special Award are required to commence their work attachments by the end of September in the year following the year of the award or to commence their studies by the end of February of the second year after the year of the award. Up to 28 February 2023, among the 34 awardees in the period from 2019-20 to 2021-22, 17 (50%) had not commenced work attachments or studies. Due to the coronavirus disease epidemic, HKDC had postponed the deadlines to 31 March 2023 for work attachments and 30 September 2023 for studies (para. 2.22).

6. ***Need to enforce undertakings to return to Hong Kong and work for a Hong Kong design business.*** Awardees of the CreateSmart Young Design Talent Award and the CreateSmart Young Design Talent Special Award are required to return to Hong Kong after the completion of their work attachments or studies outside

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Hong Kong, and work for a Hong Kong design business for not less than two consecutive years. HKDC has the right to rescind the award and claw back the sponsorships paid if the awardees failed to fulfil the requirements. Of the 54 awardees who received the awards in the period from 2017-18 to 2021-22, up to 28 February 2023, 26 had completed their work attachments or studies outside Hong Kong. Audit noted that one (4%) of the awardees had not returned to Hong Kong after the completion of his study. There was no documentary evidence showing that HKDC had taken enforcement actions against him. Furthermore, HKDC did not have information on whether every awardee had fulfilled the requirement on working for a Hong Kong design business for not less than two consecutive years and no specific timeframe was set out for the awardees to fulfil the requirements (paras. 2.24 and 2.25).

7. *Need to improve response rates and event selection mechanism for questionnaire surveys.* Audit examined the records of the questionnaire surveys for four flagship programmes conducted in the period from 2017-18 to 2021-22 and noted that questionnaire surveys were not conducted for some events of the flagship programmes. The response rates of the questionnaire surveys were on the low side, ranging from 0.76% to 45.73% in the period from 2017-18 to 2019-20 and 0.3% to 11.18% in 2020-21 and 2021-22 (para. 2.29).

8. *Need to set challenging target Income-to-Expenditure (I/E) ratios.* According to the funding agreements between the Government and HKDC, HKDC shall use its best endeavours to increase its income level to recoup the cost of the programmes funded by the Government and HKDC is required to meet the target I/E ratio for each financial year. Audit noted that although the actual I/E ratios were much higher than the targets in the period from 2017-18 to 2019-20, the target was reduced from 25% in 2019-20 to 20% in 2020-21 and further to 17% in 2021-22 (paras. 2.37 and 2.38).

9. *Need to explore measures to improve I/E ratios of flagship programmes.* Four flagship programmes, namely BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong, are included in the calculation of HKDC's I/E ratio. Audit noted that in the period from 2017-18 to 2021-22, the overall I/E ratio of the four flagship programmes decreased by 14.6 percentage points from 35.7% to 21.1%. There were decreases in I/E ratios of individual programmes of all the four flagship programmes, ranging from 5.1 percentage points to 20.2 percentage points. The income of DFA Awards and Fashion Asia Hong Kong decreased by

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\$0.6 million and \$0.4 million respectively, notwithstanding that the expenditure increased by \$4.9 million and \$6.8 million respectively (para. 2.41).

10. *Need to improve administration of sponsorship.* Audit examined HKDC's sponsorship records for the five flagship programmes conducted in the period from 2019-20 to 2021-22. Audit noted that HKDC did not lay down guidelines on the procedures for handling sponsorships. As a result, there were variations in HKDC's handling of sponsorships. While customised agreements detailing the terms and conditions for the provision of sponsorships were signed with some sponsors, sponsorship reply forms confirming the values and types of sponsorship were signed with other sponsors. Furthermore, 36 (36%) of the 100 sponsorship reply forms examined by Audit were signed by the sponsors after the commencement dates of the sponsored programmes, with delays ranging from 1 to 338 days (averaging 85 days) (para. 2.44).

Other programmes and projects

11. *Need to review provision of working spaces to incubatees.* The Design Incubation Programme (DIP) and the Fashion Incubation Programme (FIP) of HKDC provide incubatees with working spaces in the incubation centres during the two-year incubation period. Audit found that HKDC did not maintain records on the utilisation of the working spaces by the incubatees. In the period from October to December 2022, Audit visited the incubation centres four times and found that the utilisation was low: (a) in the first visit, there were persons present in 2 (3%) of the 69 working spaces visited; and (b) in the three subsequent visits, there were persons present in 2 (25%), 3 (38%) and 5 (63%) of the 8 working spaces visited respectively (paras. 3.6 and 3.11).

12. *Some working spaces were vacant for a long period of time.* In 2018, CreateHK asked HKDC to ensure that the vacancy period of an individual working space would not exceed seven calendar days, and told HKDC that leaving working space vacant for over a month without legitimate reasons could be tantamount to wastage of public funds and was unacceptable. Audit noted that, in the four-year period from 2018-19 to 2021-22: (a) in 3 of the 4 years, there were working spaces with vacancy period exceeding 7 calendar days; (b) 6 to 23 working spaces in each of the 3 years had a vacancy period of 1 month or more. The length of the vacancy period ranged from 1 to 7 months in a year, averaging 3 months; and (c) the total

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vacant working-space-months (i.e. the sum of the number of months vacant for each working space) ranged from 17 to 86 each year (paras. 3.13 and 3.14).

13. ***Admission of DIP graduates as FIP incubatees.*** In the period from August 2016 to December 2022, 6 (40%) of the 15 incubatees admitted to FIP Phase 1 and 14 (93%) of the 15 incubatees admitted to FIP Phase 2 were DIP graduates. In Audit's view, the large number of DIP graduates being admitted to FIP may not be compatible with the original intention of launching DIP and FIP because by admitting a DIP graduate into FIP, HKDC will provide a total of four years of incubation services to the incubatee. With the high percentage of FIP incubatees being DIP graduates, FIP virtually became an extension of DIP. Furthermore, the provision of such a long period of incubation services to incubatees may not be conducive to the achievement of the objectives of DIP and FIP (paras. 3.20 and 3.22).

14. ***Funding applications not submitted in a timely manner.*** According to CSI Guide, for projects funded by CSI outside the dedicated funding, CSI Secretariat's processing time for funding application is 50 clear working days after receiving all the required information from HKDC. If HKDC chooses to incur/commit any expenditure for the projects before funding approval, it will have to pay for the incurred/committed expenditure itself in case the funding applications are rejected or only partially approved. Audit noted that, of the 9 HKDC projects funded by CSI outside the dedicated funding in the period from 1 April 2017 to 31 December 2022, 8 (89%) commenced before receiving funding approvals. For 5 (63%) of the 8 projects, HKDC submitted the funding applications to CreateHK less than 50 clear working days before the project commencements, ranging from 0 to 43 clear working days, averaging 14 clear working days (paras. 3.28 to 3.30).

15. ***Progress reports accepted after completion of projects.*** For 2 of the projects funded by CSI outside the dedicated funding, HKDC is required to submit to CreateHK progress reports that contain details on the progress and financial positions of the projects for the first half of the project durations. Audit reviewed the acceptance of progress reports of the 2 projects and found that the progress reports were accepted 3 days and one month respectively after the projects have been completed (paras. 3.32 and 3.33).

16. ***Long time taken in the revision and acceptance of completion reports.*** Audit reviewed the processing of the completion reports of the 8 completed projects

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funded by CSI outside the dedicated funding, of which 7 have been accepted as at 31 December 2022. Audit found that HKDC had taken 44 to 154 days (averaging 93 days) to submit the revised completion reports after receiving CreateHK's comments. For 2 (29%) of the 7 accepted completion reports, the stipulated time of informing applicants of the results within 50 clear working days after receipt of full information of the completion reports was not met, with delays of 20 and 43 clear working days respectively (averaging 31.5 clear working days) (paras. 3.36 and 3.37).

Other issues

17. ***Need to strengthen regulation over matters concerning the safeguarding of national security.*** The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region was implemented on 30 June 2020. The Law stipulates that the Government of the Hong Kong Special Administrative Region shall take necessary measures to strengthen public communication, guidance, supervision and regulation over matters concerning national security, including those relating to schools, universities, social organisations, the media, and the Internet. Audit noted that the funding agreements between the Government and HKDC had not incorporated guidelines and requirements related to the safeguarding of national security (paras. 4.2 and 4.3).

18. ***Need to improve attendance of some Directors in Board of Directors (Board) meetings.*** In the period from 2017-18 to 2021-22, 5 Board meetings were held in each year. In each year during the five-year period, the overall attendance rates of the Directors ranged from 55% to 78% (averaging 65%). Among the three classes of Directors, the attendance rates of Class B Directors were relatively low, ranging from 49% to 74% (averaging 61%) (para. 4.8).

19. ***Need to ensure that Board members comply with requirements on declaration of interest.*** In the period from 1 January 2018 to 31 December 2022: (a) 14 (70%) of the 20 Board members having first appointment in the period had not submitted the Register of Members' Interest forms for first appointment; (b) 50 (40%) of the 126 annual Register of Members' Interest forms due for submission had not been submitted by the Board members; and (c) HKDC had not issued requests to the Board members for submission of 36 (11 for first appointment and 25 for annual submission) Register of Members' Interest forms (para. 4.11).

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20. ***Late submission of and long time taken in endorsements of three-year business plans and annual plans.*** In the six-year period from 2017-18 to 2022-23, for 3 (50%) of the 6 years, the three-year business plans and annual plans were submitted later than the stipulated deadlines or the extended deadline agreed by CreateHK. The delays ranged from 11 to 272 days (averaging 100 days) for the three-year business plans and 7 to 17 days (averaging 12 days) for the annual plans. For all the 6 years, the endorsements of the three-year business plans and annual plans were obtained after the period covered by the plans had commenced. The time periods from the start of the period to the endorsements of the three-year business plans and annual plans ranged from 1 to 264 days (averaging 82 days) and from 1 to 107 days (averaging 39 days) respectively (para. 4.15).

21. ***Need to ensure compliance with funding agreements.*** In August 2020, CSI's Controlling Officer issued a warning letter to urge HKDC's Board Chairman to tackle a breach of the funding agreement between the Government and HKDC regarding HKDC's pitching of \$3.8 million CSI funding as in-kind contribution to the Design District Hong Kong project without the Controlling Officer's approval. In the period from 2019-20 to 2021-22, apart from the warning letter issued in August 2020, CreateHK also expressed its concern on HKDC's non-compliance with the funding agreements signed between the Government and HKDC (paras. 4.22 and 4.23).

22. ***High staff turnover rates and vacancy rates.*** In the period from 2019-20 to 2021-22, overall speaking, HKDC's staff turnover rates were high, ranging from 21.3% in 2020-21 to 48.4% in 2021-22 (averaging 36.4%). As at 31 December 2022, 24 (23.1%) of the 104 positions were vacant. There was a significant increase in staff vacancy rate from 6.6% as at 31 March 2021 to 12.2% as at 31 March 2022 and 22.4% as at 31 December 2022 (paras. 4.28 and 4.29).

Audit recommendations

23. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that:**

- (a) **the Secretary for Culture, Sports and Tourism should incorporate guidelines and requirements in future funding agreements to strengthen**

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regulation over matters concerning the safeguarding of national security (para. 4.4);

- (b) **the Head of Create Hong Kong should:**

Flagship programmes

- (i) **devise appropriate mechanism to improve the performance evaluation of BODW (para. 2.17);**
- (ii) **set a challenging target I/E ratio for HKDC taking into account the actual I/E ratios achieved in preceding years (para. 2.46);**

Other programmes and projects

- (iii) **ensure that progress reports are processed in a timely manner and accepted before the completion of projects (para. 3.41(a));**
- (iv) **ensure that completion reports requiring revisions are resubmitted by HKDC in a timely manner (para. 3.41(b));**
- (v) **ensure that completion reports are processed and accepted in a timely manner (para. 3.41(c)); and**

Other issues

- (vi) **closely monitor the attendance rates of Directors at Board meetings and, when necessary, take measures to encourage Directors to avoid absences from Board meetings as far as possible (para. 4.17);**

- (c) **the Executive Director, HKDC should:**

Flagship programmes

- (i) **for BODW City Programme events without HKDC funding, ensure that:**

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- **documentary records are maintained for site visits conducted (para. 2.18(a)); and**
 - **the partners provide the numbers of participants and event photos to HKDC as required, and comply with the requirements on event promotion (para. 2.18(b) and (c));**
- (ii) **for the CreateSmart Young Design Talent Award and the CreateSmart Young Design Talent Special Award:**
- **urge the awardees to commence their work attachments or studies as soon as possible (para. 2.27(a)); and**
 - **monitor the compliance of and enforce awardees' undertakings, and consider setting a timeframe for the awardees' fulfilment of the undertakings (para. 2.27(c) and (d));**
- (iii) **improve the response rates of the questionnaire surveys for evaluation of events (para. 2.35(a));**
- (iv) **improve the mechanism for selecting events for questionnaire surveys (para. 2.35(b));**
- (v) **improve I/E ratios of BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong (para. 2.47(a));**
- (vi) **issue guidelines on the procedures for handling sponsorships (para. 2.47(c));**

Other programmes and projects

- (vii) **review the justifications for the provision of working spaces to the incubatees (para. 3.24(a));**
- (viii) **closely monitor the utilisation of working spaces (para. 3.24(c));**

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- (ix) **monitor the allocation of working spaces in the incubation centres, particularly when launching the new phase of DIP and FIP (para. 3.24(e));**
- (x) **review whether the admission of a high percentage of FIP incubatees from DIP graduates is conducive to the achievement of the objectives of DIP and FIP (para. 3.24(h));**
- (xi) **ensure that funding applications for projects funded by CSI outside the dedicated funding are submitted to CreateHK at least 50 clear working days prior to project commencements (para. 3.42(a));**
- (xii) **ensure that completion reports requiring revisions are revised and resubmitted to CreateHK in a timely manner (para. 3.42(b));**

Other issues

- (xiii) **ensure that the Register of Members' Interest forms are submitted by Board members in a timely manner (para. 4.18(a));**
 - (xiv) **ensure compliance with funding agreements between the Government and HKDC (para. 4.26); and**
 - (xv) **ensure that the review on HKDC's human resources issues and practices is completed in a timely manner, and take measures to address the issues of high staff turnover rates and high staff vacancy rates (para. 4.32); and**
- (d) **the Head of Create Hong Kong and the Executive Director, HKDC should ensure that the three-year business plans and annual plans are submitted in a timely manner and endorsements are obtained from CSTB prior to the start of the period concerned (para. 4.19).**

Response from the Government and the Hong Kong Design Centre

24. The Secretary for Culture, Sports and Tourism, the Head of Create Hong Kong and the Executive Director, HKDC agree with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 Creative industries are important economic drivers for Hong Kong. They help to increase the innovation capacity of the economy and can be a powerhouse for future economic growth. Hong Kong Design Centre (HKDC) is the Government's main partner in promoting design and related creative industries. It is a non-profit making organisation established in 2001 as a company limited by guarantee comprising the following five members:

- (a) the Hong Kong Designers Association;
- (b) the Chartered Society of Designers (Hong Kong);
- (c) the Hong Kong Interior Design Association;
- (d) the Hong Kong Fashion Designers Association; and
- (e) the Hong Kong Federation of Design and Creative Industries.

1.3 ***HKDC's work.*** There are five aspects of HKDC's work:

- (a) publicity and promotion of Hong Kong's design works;
- (b) promotion of design leadership;
- (c) promotion of design excellence;
- (d) nurturing of design-entrepreneurs; and

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- (e) supporting the development of Hong Kong's fashion design industry.

1.4 **Create Hong Kong.** Create Hong Kong (CreateHK) was set up in June 2009 by the Government as an office dedicated to promoting the development of creative industries. Since 1 July 2022, CreateHK has been under the purview of the Culture, Sports and Tourism Bureau (CSTB — Note 1), which is headed by the Secretary for Culture, Sports and Tourism. CreateHK, under the Head of Create Hong Kong, is responsible for overseeing HKDC (Note 2), and the administration and management of the CreateSmart Initiative (CSI — see para. 1.5).

1.5 **CSI.** CSI was established in June 2009 concurrently with CreateHK. It is a funding scheme that provides financial support to projects conducive to the development of creative industries in Hong Kong. CSI funding covers projects in seven creative sectors, namely advertising, architecture, design, digital entertainment, music, printing and publishing, and television. The Permanent Secretary for Culture, Sports and Tourism (PSCST — Note 3) is the Controlling Officer of CSI.

HKDC's activities

1.6 HKDC's activities target a wide spectrum of audience, such as business leaders, entrepreneurs, brand owners, design professionals and students, and the public. The activities include the promotion of Hong Kong's creative industries by organising programmes funded by CSI's dedicated funding (see para. 1.7) (i.e. five flagship programmes and two incubation programmes) and some other projects not funded by CSI's dedicated funding:

Note 1: *CSTB took over the creative industries portfolio from the Commerce and Economic Development Bureau following the reorganisation of government structure on 1 July 2022.*

Note 2: *Following the establishment of CreateHK in 2009, the housekeeping responsibility of HKDC was transferred from the Innovation and Technology Commission to CreateHK.*

Note 3: *PSCST was re-created from the Permanent Secretary for Commerce and Economic Development (Communications and Creative Industries) when CSTB was established on 1 July 2022.*

- (a) ***Flagship programmes.*** The five flagship programmes are:
 - (i) Business of Design Week (BODW — see Photograph 1);
 - (ii) DFA Awards (see Photograph 2);
 - (iii) Knowledge of Design Week;
 - (iv) Nurturing Programme of Hong Kong Young Design Talents; and
 - (v) Fashion Asia Hong Kong;
- (b) ***Incubation programmes.*** The two incubation programmes are:
 - (i) Design Incubation Programme (DIP); and
 - (ii) Fashion Incubation Programme (FIP);
- (c) ***Projects funded by CSI outside the dedicated funding.*** In the period from April 2017 to December 2022, HKDC organised 9 projects funded by CSI outside the dedicated funding. The CSI funding approved for the 9 projects was \$59 million; and
- (d) ***Other projects.*** From time to time, HKDC collaborates with government departments or other organisations in organising projects related to the promotion of design and related creative industries in Hong Kong. For example, in the period from 2018-19 to 2020-21, HKDC collaborated with the Tourism Commission in organising a creative tourism project named Design District Hong Kong.

Photograph 1

A forum held under BODW (2022)



Source: *HKDC records*

Photograph 2

An award presentation ceremony held under DFA Awards (2022)



Source: *HKDC records*

Funding model

1.7 In the period from its establishment in 2001 to March 2019, HKDC received Government funding of about \$300 million to support its basic operation. Since 2019-20, a streamlined funding approach supported by the Legislative Council Panel on Information Technology and Broadcasting has been adopted. For the three-year funding cycle from 2019-20 to 2021-22, dedicated funding of around \$300 million from CSI was earmarked for HKDC. In the funding cycle, cumulative payments of about \$208 million have been made to HKDC mainly for implementing the flagship programmes and the incubation programmes. For the three-year funding cycle from 2022-23 to 2024-25, dedicated funding of \$268 million from CSI has been earmarked for HKDC. Funding agreements were signed between the Government and HKDC, which set out the ambit of the use and the conditions for allocation of funds.

Income and expenditure

1.8 **Income.** In the period from 2017-18 to 2021-22, the annual income of HKDC ranged from \$102.3 million to \$129.2 million, mainly comprising government funding, project income and sponsorships, as follows:

- (a) **Government funding.** Government funding mainly comprised CSI funding (comprising CSI's dedicated funding and CSI funding outside the dedicated funding) and funding from other government departments (e.g. funding from the Tourism Commission for the Design District Hong Kong project). The amount of government funding ranged from \$82.5 million to \$112.5 million annually;
- (b) **Project income.** Project income mainly comprised registration fees for the events organised by HKDC under the flagship programmes, and entry and winner fees for DFA Awards (see para. 1.6(a)). The amount of project income ranged from \$4.1 million to \$7.7 million annually; and
- (c) **Sponsorships.** Sponsorships were mainly those designated for individual flagship programmes. The amount of sponsorships received ranged from \$3.2 million to \$14.3 million annually.

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1.9 *Expenditure.* In the period from 2017-18 to 2021-22, the annual expenditure of HKDC ranged from \$102.2 million to \$128.3 million, comprising expenditure for project expenses (e.g. marketing and communication expenses, and event venue hiring costs), payroll and related costs, and overhead and administration.

1.10 Table 1 summarises the income and expenditure of HKDC in the period from 2017-18 to 2021-22.

Table 1

**Income and expenditure of HKDC
(2017-18 to 2021-22)**

	2017-18	2018-19	2019-20	2020-21	2021-22
	(\$'000)				
<i>Income</i>					
Government funding	82,520	99,947	108,940	109,472	112,454
Project income	6,244	7,727	6,279	4,093	4,820
Sponsorship	13,469	14,340	3,164	8,441	11,878
Other income (Note)	23	30	86	—	—
Total	102,256	122,044	118,469	122,006	129,152
<i>Expenditure</i>					
Project expenses	66,411	77,101	72,282	72,074	75,733
Payroll and related costs	29,725	35,296	36,332	41,357	43,193
Overhead and administration	6,048	9,741	9,647	8,344	9,357
Total	102,184	122,138	118,261	121,775	128,283

Source: Audit analysis of HKDC records

Note: Other income was mainly bank interest income.

Governance and organisation structure

1.11 ***Governance structure.*** The governing body of HKDC is the Board of Directors (the Board). The Board is responsible for steering and overseeing HKDC's operations. As of 31 December 2022, the Board consisted of a Chairman and

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23 members. The Board comprised the Head of Create Hong Kong, a representative from each of the five design associations (see para. 1.2), and members elected from the design/cultural/creative sectors, business/industry sectors and professionals/academics/industry support organisations (Note 4). The Board is supported by four committees, namely the Audit Committee, the Development Committee, the Finance and Administration Committee, and the Programme Committee.

1.12 **Organisation structure.** The Executive Director, appointed by the Board, is responsible for ensuring the proper operation of HKDC. As at 31 December 2022, HKDC had an establishment of 104 staff (including 28 positions funded by the Job Creation Scheme (Note 5)). The strength of HKDC was 80 (including 21 staff funded by the Job Creation Scheme). An extract of the organisation chart of HKDC as at 31 December 2022 is shown in Appendix A.

Audit review

1.13 In September 2022, the Audit Commission (Audit) commenced a review of HKDC. This audit has focused on the following areas:

- (a) flagship programmes (PART 2);
- (b) other programmes and projects (PART 3); and
- (c) other issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Note 4: *Members elected from the design/cultural/creative sectors, business/industry sectors and professionals/academics/industry support organisations are appointed jointly by the five Directors representing the five design associations and approved by the Secretary for Culture, Sports and Tourism.*

Note 5: *The Job Creation Scheme was launched by the Government in 2020 to create time-limited jobs in the public and private sectors to relieve the unemployment situation caused by the coronavirus disease epidemic and the anti-epidemic measures. Under the scheme, the Government subsidises part of the cost of the additional staff employed by the non-governmental sector.*

General response from the Hong Kong Design Centre

1.14 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will work closely with CreateHK to take follow-up actions and improvement measures as appropriate.

General response from the Government

1.15 The Secretary for Culture, Sports and Tourism and the Head of Create Hong Kong agree with the audit recommendations. The Head of Create Hong Kong has said that CreateHK will work closely with HKDC to take follow-up actions and improvement measures as appropriate.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the full cooperation of the staff of CreateHK and HKDC during the course of the audit review.

PART 2: FLAGSHIP PROGRAMMES

2.1 This PART examines the implementation of flagship programmes by HKDC, focusing on the following areas:

- (a) administration of BODW (paras. 2.4 to 2.20);
- (b) administration of Nurturing Programme of Hong Kong Young Design Talents (paras. 2.21 to 2.28);
- (c) evaluation of flagship programmes (paras. 2.29 to 2.36); and
- (d) project income and sustainability (paras. 2.37 to 2.49).

Background

2.2 Every year, HKDC organises the following flagship programmes:

- (a) **BODW.** Launched in 2002, BODW is a week-long event dedicated to design, brand and innovation with conferences, forums, awards presentation, exhibitions, outreach programme (i.e. BODW City Programme — see para. 2.4), gala dinner and other networking gatherings. It serves as a platform for design enthusiasts, students and the public to network, exchange ideas and explore business collaborations;
- (b) **DFA Awards.** DFA Awards has been HKDC's annual flagship event since 2003 to honour design excellence and demonstrate how design can improve the quality of life in Asia. There are five award programmes, namely DFA Lifetime Achievement Award, DFA Design Leadership Award, DFA World's Outstanding Chinese Designer, DFA Design for Asia Awards and DFA Hong Kong Young Design Talent Award;
- (c) **Knowledge of Design Week.** Knowledge of Design Week was first held in 2006. It is a week-long event consisting of a series of conferences and workshops. The programme aims to engage participants in a multi-level dialogue on how design can solve complex challenge of the society. It also

aims to inspire business executives with the application of design in business context and update local design professionals with the latest global design trend and knowledge;

- (d) ***Nurturing Programme of Hong Kong Young Design Talents.*** The programme was introduced in 2012. It provides financial sponsorships for eligible DFA Hong Kong Young Design Talent Award awardees to undergo work attachments or studies outside Hong Kong. The programme allows the awardees to develop their skills and bring different ideas back to Hong Kong, contributing to the city's design and creative industries upon their return. The programme also provides a platform to the awardees for promotion and network building; and
- (e) ***Fashion Asia Hong Kong.*** Fashion Asia Hong Kong was launched in 2016 as part of the Fashion Initiatives of the Government. It geared to energise Hong Kong's image and position as an international city of fashion business development in Asia. Fashion Asia Hong Kong includes a two-day forum and a week-long fashion exhibition. The forum and the exhibition are held concurrently with BODW.

2.3 In 2021-22, HKDC's expenditures in implementing each flagship programme ranged from \$5.9 million to \$28.5 million, totalling \$70.9 million. Table 2 shows HKDC's expenditures in implementing the flagship programmes in the three-year funding cycle from 2019-20 to 2021-22.

Table 2**Expenditure in implementing the flagship programmes
(2019-20 to 2021-22)**

Flagship programme	Expenditure (\$ million)		
	2019-20	2020-21	2021-22
BODW	18.3	22.0	28.5
DFA Awards	11.2	10.9	12.8
Knowledge of Design Week	6.5	5.4	7.2
Nurturing Programme of Hong Kong Young Design Talents	2.8	3.4	5.9
Fashion Asia Hong Kong	9.6	14.6	16.5
Total	48.4	56.3	70.9

Source: Audit analysis of HKDC records

Administration of Business of Design Week

Need to monitor implementation of BODW City Programme events

2.4 BODW City Programme is a citywide creative business and design and creative clusters activation programme initiated by HKDC in 2018. It is a community extension programme of BODW. HKDC collaborates with various parties (e.g. individual designers, non-governmental organisations and local creative communities) as partners to organise events under the following three platforms:

- (a) ***Anchor Site Festivals.*** Partners of Anchor Site Festivals organise design festivals that activate and connect local creative businesses and communities. Each festival should comprise at least five to eight free of charge design and innovation related activities for the public to experience the value of design;

- (b) ***Design EduVation Programmes.*** Partners of Design EduVation Programmes organise educational programmes for design thinking education and creative community engagement. The programmes should be free of charge, and target different communities and age groups; and
- (c) ***Satellite Events and Offers.*** Partners of Satellite Events and Offers organise a range of individual design related activities at their own resources and venues, or provide special offers such as sales discount, free gifts, discount or free admission to paid workshops or activities.

2.5 Partners of the Anchor Site Festivals and the Design EduVation Programmes may apply for HKDC funding (Note 6). To monitor the implementation of events by BODW City Programme partners, HKDC has implemented the following measures:

- (a) ***Events with HKDC funding.*** The partners need to:
 - (i) meet with HKDC representatives regularly to report the event progress; and
 - (ii) submit a report to and attend a review meeting with HKDC after completion of the events, and assist HKDC to collect feedback from the participants through conducting a questionnaire survey; and
- (b) ***Events without HKDC funding.*** The partners are:
 - (i) required to provide the numbers of participants and event photos for HKDC's record; and
 - (ii) not required to report the event progress to HKDC. Instead, HKDC will arrange site visits to selected events to ascertain the performance of the partners and the quality of the events.

Note 6: *In the period from 2018-19 to 2021-22, the amount of funding provided to each BODW City Programme event ranged from \$18,000 to \$140,000, averaging \$61,339.*

Flagship programmes

2.6 Audit reviewed HKDC's records on BODW City Programme conducted in the period from 2018-19 to 2021-22. Audit noted that:

- (a) ***Events with HKDC funding.*** All the 43 events with HKDC funding complied with the requirements on submission of reports and collection of feedback (see para. 2.5(a)); and
- (b) ***Events without HKDC funding.*** Of the 463 events without HKDC funding:
 - (i) the partners of 189 (41%) had not provided the numbers of participants and the partners of 80 (17%) had not provided event photos to HKDC (see para. 2.5(b)(i)); and
 - (ii) other than the records of travel expenses claimed by staff, HKDC did not have documentary records relating to the site visits conducted to ascertain the performance of the partners and the quality of events (see para. 2.5(b)(ii)).

2.7 Audit considers that HKDC needs to take measures to ensure that:

- (a) for BODW City Programme events without HKDC funding, documentary records are maintained for site visits conducted to ascertain the performance of the partners and the quality of the events, including records on the results of the site visits and whether any follow-up actions are necessary; and
- (b) the partners of BODW City Programme events without HKDC funding provide the numbers of participants and event photos to HKDC as required.

Requirements on event promotion not complied with by BODW City Programme partners

2.8 With a view to achieving effective promotion and greater marketing synergy, the partner agreements and the information kit of BODW City Programme stipulated that, on event promotion, partners of BODW City Programme are required to:

- (a) put up BODW City Programme signage, posters, table tent cards or the equivalent at prominent positions in the event area; and
- (b) acknowledge the events as BODW City Programme events, and tag BODW City Programme and add hashtags of BODW City Programme on their social media posts (Note 7).

2.9 Up to 31 January 2023, BODW City Programme 2022 had rolled out 86 events, including 12 Anchor Site Festivals, 4 Design EduVation Programmes and 70 Satellite Events and Offers. According to HKDC, it had reminded the partners to acknowledge the events as BODW City Programme events on-site and on the social media during the event period. In December 2022 and January 2023, Audit conducted site visits to 6 of the 86 events (comprising 3 Anchor Site Festivals, and 3 Satellite Events and Offers) and examined the social media pages of the partners of all the 86 events. Audit noted that the requirements on event promotion were not complied with by a number of BODW City Programme partners:

- (a) the partner of 1 (17%) of the 6 events visited by Audit did not put up BODW City Programme signage, posters, table tent cards or the equivalent at the event area; and
- (b) there were posts relating to the BODW City Programme events in the social media of the partners of 70 (81% — including 12 Anchor Site Festivals, 4 Design EduVation Programmes, and 54 Satellite Events and Offers) of the 86 events. For 30 (43% — including 6 Anchor Site Festivals and 24 Satellite Events and Offers) of the 70 events, the partners did not acknowledge the events as BODW City Programme events nor applied tags or hashtags on the events' social media posts.

2.10 Audit considers that HKDC needs to take measures to ensure that BODW City Programme partners comply with the requirements on event promotion with a view to achieving effective promotion and greater marketing synergy.

Note 7: *By tagging BODW City Programme on a social media post, users can access BODW City Programme webpage on the same social media platform via the link created by the tag. A hashtag is a word or phrase preceded by a hash (#) sign and is used on social media websites and applications to identify messages relating to a specific topic.*

Need to rationalise the basis of reporting the number of physical attendance of BODW City Programme

2.11 Number of physical attendance is one of the key performance indicators for BODW City Programme. In accordance with the funding agreements between the Government and HKDC, HKDC reported the number of physical attendance of BODW City Programme to CreateHK in the half-yearly operational reports. Audit examined the reports submitted by HKDC in the period from 2018-19 to 2021-22. Audit noted that there were inconsistencies in the basis of HKDC's reporting of the number of physical attendance:

- (a) for Anchor Site Festivals, physical attendance was not reported for events without HKDC funding; and
- (b) for Design EduVation Programmes and Satellite Events and Offers, physical attendance was reported for all events, including those without HKDC funding.

2.12 Audit considers that HKDC needs to, in consultation with CreateHK, rationalise the basis of reporting the number of physical attendance of BODW City Programme to accurately reflect the effectiveness of BODW City Programme.

Need to improve performance evaluation of BODW

2.13 One of the objectives of BODW is to serve as a platform for design enthusiasts, students and the public to network, exchange ideas and explore business collaborations (see para. 2.2(a)). To measure the achievement of this objective:

- (a) the number of business contacts or enquiries received by event participants is set as a key performance indicator for BODW; and
- (b) since July 2011, CreateHK has required HKDC to collect feedback from participants using a standard questionnaire on how useful BODW is in assisting them to expand their contact network and explore new business opportunities.

2.14 Audit examined HKDC's achievements of the key performance indicators and the results of the questionnaire surveys for BODW in the period from 2017-18 to 2021-22. Audit noted that:

- (a) HKDC did not have information on the number of business contacts or enquiries received by event participants and did not report such information to CreateHK. Every year, HKDC either reported that the number was "zero" or that the performance indicator was not applicable;
- (b) in 2018-19, 30% of the respondents rated the programme as "fair" or "not useful" in assisting them to expand their contact network, and 33% of the respondents rated the programme as "fair" or "not useful" in assisting them to explore new business opportunities (Note 8); and
- (c) since 2020-21, instead of using CreateHK's standard questionnaire (see para. 2.13(b)), HKDC had used a customised questionnaire for its survey. Questions on usefulness of BODW were not included in the customised questionnaire. Hence, feedback on the usefulness of BODW was no longer collected from the participants (Note 9).

2.15 According to HKDC, event participants of BODW refused to disclose the number of business contacts or enquiries received, therefore the key performance indicator on number of business contacts or enquiries received by event participants was reported as "zero" or not applicable. However, Audit noted that other flagship programmes and projects (i.e. Knowledge of Design Week in 2020-21 and Public Awareness Programme in 2019-20 to 2021-22) had provided such information to HKDC. This suggested that it was not reasonable for the event participants to refuse to disclose such information.

Note 8: *According to HKDC, in 2019-20, the questionnaire surveys were not conducted because some BODW events were cancelled due to the black-clad violence.*

Note 9: *According to CreateHK, in November 2022, it noted that HKDC had not included questions in CreateHK's standard questionnaire in the BODW questionnaires. In January 2023, CreateHK requested HKDC to rectify the questionnaires and provide the questionnaires for each flagship programme for CreateHK's information on an annual basis.*

Flagship programmes

2.16 Audit considers that CreateHK needs to, in collaboration with HKDC, devise appropriate mechanism to improve the performance evaluation of BODW with a view to reflecting the effectiveness of the programme in achieving its objectives.

Audit recommendations

2.17 Audit has *recommended* that the Head of Create Hong Kong should, in collaboration with HKDC, devise appropriate mechanism to improve the performance evaluation of BODW with a view to reflecting the effectiveness of the programme in achieving its objectives.

2.18 Audit has *recommended* that the Executive Director, HKDC should:

- (a) take measures to ensure that, for BODW City Programme events without HKDC funding, documentary records are maintained for site visits conducted to ascertain the performance of the partners and the quality of the events, including records on the results of the site visits and whether any follow-up actions are necessary;
- (b) take measures to ensure that the partners of BODW City Programme events without HKDC funding provide the numbers of participants and event photos to HKDC as required;
- (c) take measures to ensure that BODW City Programme partners comply with the requirements on event promotion; and
- (d) in consultation with CreateHK, rationalise the basis of reporting the number of physical attendance of BODW City Programme to accurately reflect the effectiveness of BODW City Programme.

Response from the Government

2.19 The Head of Create Hong Kong agrees with the audit recommendation. He has said that:

- (a) CreateHK has collaborated with HKDC in setting the key performance indicators for its flagship programmes including BODW funded by CSI's dedicated funding, and constantly reviews the key performance indicators to ensure that they reflect the effectiveness of the programmes; and
- (b) CreateHK will continue to work closely with HKDC to review and take measures to further improve the performance evaluation of its flagship programmes including BODW.

Response from the Hong Kong Design Centre

2.20 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) take measures to maintain proper documentary records of the site visits conducted for BODW City Programme events without HKDC funding to ascertain the performance of the partners and the quality of the events;
- (b) adopt measures to ensure that the partners of BODW City Programme events without HKDC funding provide the number of participants and event photos to HKDC as required;
- (c) explore measures to ensure that BODW City Programme partners comply with the requirements on event promotion; and
- (d) review the basis of reporting the number of physical attendance of HKDC's programmes after consulting with CreateHK.

Administration of Nurturing Programme of Hong Kong Young Design Talents

2.21 The Nurturing Programme of Hong Kong Young Design Talents was launched in 2012. It provides financial sponsorship to the awardees of the following two award categories under DFA Hong Kong Young Design Talent Award (Note 10) to undergo work attachments or studies outside Hong Kong:

- (a) ***CreateSmart Young Design Talent Award.*** The Award is for design practitioners. The awardees will receive sponsorship of up to \$500,000 to undergo work attachments outside Hong Kong for 6 to 12 months; and
- (b) ***CreateSmart Young Design Talent Special Award.*** The Award is for design practitioners or design graduates. The awardees will receive sponsorship of up to \$250,000 to undergo work attachments outside Hong Kong for 6 to 12 months or studies outside Hong Kong for 6 to 18 months.

The sponsorship covers the costs directly related to the work attachments or studies outside Hong Kong, including airfares (round-trip economy class), lodging, living expenses and any other costs approved by HKDC.

Delays in commencement of work attachments or studies outside Hong Kong

2.22 Awardees of the CreateSmart Young Design Talent Award and CreateSmart Young Design Talent Special Award are required to commence their work attachments by the end of September in the year following the year of the award or to commence their studies by the end of February of the second year after the year

Note 10: *DFA Hong Kong Young Design Talent Award is an award programme under DFA Awards (see para. 2.2(b)). It aims to identify and nurture up-and-coming design practitioners and design graduates aged from 18 to 35. There are five categories of awards. Apart from CreateSmart Young Design Talent Award and CreateSmart Young Design Talent Special Award, the other three categories of awards are PolyU School of Design Young Design Talent Award, HKDI Young Design Talent Award and Young Design Talent Special Mention Award. These three awards are not funded by CSI.*

of the award. In the period from 2019-20 to 2021-22, there were 34 awardees. Audit noted that, up to 28 February 2023:

- (a) 7 (21%) had commenced work attachments or studies before the deadlines stipulated at the time of the awards (original deadlines);
- (b) 10 (29%) had commenced work attachments or studies after the original deadlines. The delays from the original deadlines ranged from 4 to 28 months (averaging 12 months); and
- (c) 17 (50%) awardees had not commenced work attachments or studies. Due to the coronavirus disease (COVID-19) epidemic, HKDC had postponed the deadlines to 31 March 2023 for work attachments and 30 September 2023 for studies.

2.23 In view of the recent discontinuance of most of the anti-epidemic measures against the COVID-19 epidemic, Audit considers that HKDC needs to:

- (a) urge the awardees to commence their work attachments or studies outside Hong Kong as soon as possible; and
- (b) take measures to facilitate the awardees to commence work attachments or studies, for example, by speeding up the processing of revised work attachment or study plans and providing assistance in connecting with the employers or institutions where appropriate.

Need to enforce undertakings to return to Hong Kong and work for a Hong Kong design business

2.24 Awardees of the CreateSmart Young Design Talent Award and the CreateSmart Young Design Talent Special Award receiving sponsorships for work attachments or studies outside Hong Kong are required to fulfil the requirements of the undertakings signed upon their confirmation to receive the awards. The undertakings stipulated that:

- (a) the awardees need to contribute to the development of Hong Kong's design and creative industries by:

Flagship programmes

- (i) returning to Hong Kong after the completion of their work attachments or studies; and
 - (ii) working for a Hong Kong design business for not less than two consecutive years; and
- (b) HKDC has the right to rescind the award and claw back the sponsorships paid if the awardees failed to fulfil the requirements.

2.25 Of the 54 awardees who received the awards in the period from 2017-18 to 2021-22, up to 28 February 2023, 26 had completed their work attachments or studies outside Hong Kong. Audit noted that:

- (a) 25 (96%) of the 26 awardees had returned to Hong Kong after the completion of their work attachments or studies. The remaining one (4%) awardee had not returned to Hong Kong after the completion of his study. There was no documentary evidence showing that HKDC had taken enforcement actions against him;
- (b) from time to time, HKDC sent emails to the awardees enquiring them of their latest positions. However, HKDC did not have information on whether every awardee had fulfilled the requirement on working for a Hong Kong design business for not less than two consecutive years;
- (c) there was no mechanism in place to monitor the awardees' compliance of the requirements in the undertakings; and
- (d) no specific timeframe was set out in the undertakings for the awardees to fulfil the requirements.

2.26 Audit considers that HKDC needs to:

- (a) put in place a mechanism to monitor the compliance of and enforce awardees' undertakings to return to Hong Kong and work for Hong Kong design business for not less than two consecutive years after the completion of work attachments or studies outside Hong Kong; and

- (b) consider setting a timeframe for the awardees' fulfilment of the undertakings to return to Hong Kong and work for Hong Kong design business for not less than two consecutive years after the completion of work attachments or studies outside Hong Kong.

Audit recommendations

2.27 **Audit has *recommended* that the Executive Director, HKDC should:**

- (a) **urge the awardees to commence their work attachments or studies outside Hong Kong as soon as possible;**
- (b) **take measures to facilitate the awardees to commence work attachments or studies, for example, by speeding up the processing of revised work attachment or study plans and providing assistance in connecting with the employers or institutions where appropriate;**
- (c) **put in place a mechanism to monitor the compliance of and enforce awardees' undertakings to return to Hong Kong and work for Hong Kong design business for not less than two consecutive years after the completion of work attachments or studies outside Hong Kong; and**
- (d) **consider setting a timeframe for the awardees' fulfilment of the undertakings to return to Hong Kong and work for Hong Kong design business for not less than two consecutive years after the completion of work attachments or studies outside Hong Kong.**

Response from the Hong Kong Design Centre

2.28 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) **urge the awardees to commence their required work attachments or studies as soon as possible;**

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- (b) take measures to facilitate the awardees to commence their work attachments or studies, e.g. by speeding up the processing of revised work attachment or study plans and providing assistance in connecting with the employers or institutions where appropriate;
- (c) develop a mechanism to monitor the compliance of the awardees, such as asking them to provide their boarding passes of returning flights to Hong Kong and updates of their work details or design projects; and
- (d) review the undertakings to include a timeframe for awardees' fulfilment of returning to Hong Kong and working for Hong Kong design business for not less than two consecutive years after the completion of work attachments or studies outside Hong Kong.

Evaluation of flagship programmes

Need to improve response rates and event selection mechanism for questionnaire surveys

2.29 Upon completion of a flagship programme, HKDC prepares a completion report with details on the result, performance and evaluation of the programme. HKDC collects feedback from participants of selected events of the flagship programmes through a questionnaire survey. For events conducted via online mode, the questionnaire surveys were conducted electronically by sending the questionnaires to the participants by emails or displaying a Quick Response code for the participants to complete the questionnaires online. Audit examined the records of the questionnaire surveys for four flagship programmes (Note 11) conducted in the period from 2017-18 to 2021-22 and noted that:

- (a) *questionnaire surveys not conducted for some events.* Questionnaire surveys were not conducted for some events of the flagship programmes. According to HKDC:

Note 11: *The Nurturing Programme of Hong Kong Young Design Talents was excluded from the analysis because most of the programme's activities were subsumed under the activities of DFA Awards and were covered by the questionnaire surveys for DFA Awards.*

- (i) the owners of some event venues (e.g. shopping malls) did not allow HKDC to conduct questionnaire surveys in any form due to the concern of disturbing the guests; and
- (ii) for some other events, the numbers of participants involved were too small to be statistically significant for reflecting the effectiveness of the respective programmes.

However, Audit noted that there was no documentary evidence showing the justifications for not selecting an event for the questionnaire surveys. There were also no guidelines on the selection criteria; and

- (b) ***low response rates in questionnaire surveys.*** The response rates of the questionnaire surveys were on the low side (see Table 3):
 - (i) ***2017-18 to 2019-20.*** The response rates of the questionnaire surveys conducted in the period from 2017-18 to 2019-20 ranged from 0.76% (DFA Awards in 2017-18) to 45.73% (Knowledge of Design Week in 2019-20); and
 - (ii) ***2020-21 and 2021-22.*** Some events of the flagship programmes were conducted via online mode or hybrid mode (i.e. both physical and online modes) in 2020-21 and 2021-22. The response rates of the questionnaire surveys conducted in 2020-21 and 2021-22 ranged from 0.3% (Fashion Asia Hong Kong in 2021-22) to 11.18% (DFA Awards in 2020-21).

Flagship programmes

Table 3

Response rates of questionnaire surveys of flagship programmes (2017-18 to 2021-22)

	2017-18	2018-19	2019-20	2020-21	2021-22
<i>BODW</i>					
No. of participants covered by surveys	5,082	4,616	(Note)	7,149	7,744
No. of respondents	750	517		118	129
Response rate	14.76 %	11.20%		1.65 %	1.67 %
<i>DFA Awards</i>					
No. of participants covered by surveys	99,405	138,182	34,714	8,437	6,382
No. of respondents	760	1,190	450	943	287
Response rate	0.76 %	0.86%	1.30%	11.18%	4.50%
<i>Knowledge of Design Week</i>					
No. of participants covered by surveys	642	710	890	14,639	4,184
No. of respondents	248	261	407	172	199
Response rate	38.63 %	36.76%	45.73%	1.17%	4.76%
<i>Fashion Asia Hong Kong</i>					
No. of participants covered by surveys	12,403	17,725	(Note)	56,466	41,621
No. of respondents	840	625		324	124
Response rate	6.77%	3.53%		0.57%	0.30%

Source: Audit analysis of HKDC records

Note: In 2019-20, BODW Summit, DFA Awards Presentation Ceremony and the programmes of Fashion Asia Hong Kong were cancelled due to the black-clad violence in 2019.

2.30 Audit considers that HKDC needs to:

- (a) take measures to improve the response rates of the questionnaire surveys for evaluation of events under the flagship programmes; and
- (b) improve the mechanism for selecting events of the flagship programmes for questionnaire surveys by:
 - (i) documenting the justifications for excluding an event from the questionnaire surveys; and
 - (ii) laying down the selection criteria for selecting events for conducting questionnaire surveys.

Need to monitor performance of service providers and business sponsors

2.31 HKDC procures services from various service providers (e.g. videography and photography services providers, and marketing and public relations agencies) for implementing the flagship programmes. In the period from 2017-18 to 2021-22, the value of each service contract ranged from several hundred dollars to \$3.7 million, with 5 of the service contracts having a value exceeding \$1.4 million (see Note 12 to para. 2.32(b)). In addition, HKDC secures in-kind sponsorship mainly in the form of services (e.g. television production services and market research services). In 2021-22, the in-kind sponsorship provided by business sponsors to the flagship programmes amounted to \$8.74 million. Some service providers provided services under service contracts and at the same time provided services as in-kind sponsorship in the capacity of business sponsors.

2.32 The Stores and Procurement Regulations of the Government are made by the Financial Secretary/Secretary for Financial Services and the Treasury under the Public Finance Ordinance (Cap. 2) for compliance by the public officers. They regulate matters relating to the management and procurement of government stores and services, and requirements on contract administration, which include:

Flagship programmes

- (a) effective monitoring mechanism shall be devised to ensure that a contractor or consultant performs to standard and complies with the terms of a contract; and
- (b) for contracts with a value exceeding the quotation limits (Note 12), performance of contractors or consultants should be evaluated:
 - (i) at least once every six months until completion of the contract for contracts lasting more than one year; and
 - (ii) upon completion of the contract for contracts lasting a year or less.

2.33 In response to Audit's enquiry, HKDC informed Audit in February 2023 that it had reviewed and evaluated its service providers with contracts exceeding \$1.4 million upon the completion of BODW in 2021 and 2022. However, Audit found that:

- (a) there was no documentary evidence showing that HKDC had evaluated the performance of the service providers and business sponsors; and
- (b) HKDC had not laid down guidelines on the monitoring of performance of service providers and business sponsors.

2.34 Although HKDC is not a government department hence not subject to the Stores and Procurement Regulations, there are merits for HKDC to devise a monitoring mechanism to ensure that service providers and business sponsors perform to standard and comply with the terms of a contract where applicable, making reference to the requirements set out in the Stores and Procurement Regulations. Audit considers that HKDC needs to establish a mechanism to monitor the performance of service providers and business sponsors of flagship programmes.

Note 12: *The quotation limit for the procurement of services, other than consultancy services and services for construction and engineering works, is \$1.4 million.*

Audit recommendations

2.35 **Audit has *recommended* that the Executive Director, HKDC should:**

- (a) **take measures to improve the response rates of the questionnaire surveys for evaluation of events under the flagship programmes;**
- (b) **improve the mechanism for selecting events of the flagship programmes for questionnaire surveys by:**
 - (i) **documenting the justifications for excluding an event from the questionnaire surveys; and**
 - (ii) **laying down the selection criteria for selecting events for conducting questionnaire surveys; and**
- (c) **establish a mechanism to monitor the performance of service providers and business sponsors of flagship programmes.**

Response from the Hong Kong Design Centre

2.36 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) adopt measures to promote the completion of questionnaire surveys to improve the response rates;
- (b) improve the mechanism for selecting events of the flagship programmes for questionnaire surveys by:
 - (i) documentation of the justifications for excluding an event from the questionnaire surveys; and
 - (ii) setting out the selection criteria for selecting events for conducting questionnaire surveys; and

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- (c) in the review of the Corporate Governance Manual, establish a mechanism to monitor the performance of service providers and business sponsors of flagship programmes. The same recommendation as the one in paragraph 2.35(c) was made in the latest internal audit report, and appropriate actions have already been planned.

Project income and sustainability

2.37 According to the funding agreements between the Government and HKDC:

- (a) HKDC shall build up and enhance its revenue stream, and use its best endeavours to increase its income level to recoup the cost of the programmes funded by the Government; and
- (b) HKDC is required to meet the target Income-to-Expenditure (I/E) ratio (Note 13) for each financial year. The target I/E ratio shall be set by the Controlling Officer of CSI at his sole discretion and shall not be less than 17%.

Need to set challenging target I/E ratios

2.38 For the financial years from 2017-18 to 2021-22, the target I/E ratios increased from 20% in 2017-18 to 25% in 2019-20 and then decreased to 17% in 2021-22 (see Table 4). In every financial year from 2017-18 to 2021-22, HKDC has been able to exceed the target I/E ratio. Audit noted that although the actual I/E ratios were much higher than the targets in the period from 2017-18 to 2019-20, the target was reduced from 25% in 2019-20 to 20% in 2020-21 and further to 17% in 2021-22.

Note 13: *According to the funding agreements, the income and expenditure for the purpose of calculating I/E ratios are those in respect of four flagship programmes (i.e. BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong) and projects that are in line with HKDC's objectives:*

- (a) **Income.** *Income includes self-earned income (including Government funding provided in the form of service/contract/project fee), cash and in-kind sponsorship collected, and donations received; and*
- (b) **Expenditure.** *Expenditure includes expenditure incurred and in-kind sponsorship collected.*

Table 4

**Target I/E ratio and actual I/E ratio achieved by HKDC
(2017-18 to 2021-22)**

Financial year	Target	Actual
2017-18	20 %	28.8 %
2018-19	25 %	28.1 %
2019-20	25 %	33.0 %
2020-21	20 %	33.5 %
2021-22	17 %	26.9 %

Source: CreateHK records

Remarks: Higher I/E ratios were achieved in the period from 2018-19 to 2020-21 due to the income received from the Design District Hong Kong project commissioned by the Tourism Commission (see para. 3.45).

2.39 In response to Audit's enquiry, CreateHK informed Audit in February 2023 that:

- (a) it was CreateHK's intention to set a challenging target I/E ratio if situation warranted; and
- (b) CreateHK had taken into account the following considerations when less challenging targets (20% and 17% respectively) were set for 2020-21 and 2021-22:
 - (i) notwithstanding that the past performance of HKDC had been promising, there were uncertainties brought about by the COVID-19 epidemic; and
 - (ii) the Design District Hong Kong project, which had contributed significantly to HKDC's income in calculating the I/E ratio in the

Flagship programmes

period from 2018-19 to 2020-21, had been completed in 2020-21 and would no longer contribute to the income in 2021-22.

2.40 Audit considers that CreateHK needs to set a challenging target I/E ratio for HKDC taking into account the actual I/E ratios achieved in preceding years with a view to encouraging HKDC to use its best endeavours to increase its income level to recoup the cost of the programmes funded by the Government.

Need to explore measures to improve I/E ratios of flagship programmes

2.41 Although target I/E ratio has been set for HKDC as a whole, no target I/E ratio was set to specifically monitor the financial sustainability of the flagship programmes. Four flagship programmes, namely BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong, are included in the calculation of HKDC's I/E ratio (see Note 13 to para. 2.37(b)). As the financial sustainability of the four flagship programmes will have impact on the achievements of the target I/E ratio set for HKDC as a whole, Audit analysed the overall I/E ratio of the four flagship programmes and I/E ratios of individual programmes (see Table 5). Audit noted that in the period from 2017-18 to 2021-22:

- (a) the overall I/E ratio of the four flagship programmes decreased by 14.6 percentage points from 35.7% to 21.1%;
- (b) there were decreases in I/E ratios of individual programmes of all the four flagship programmes, ranging from 5.1 percentage points to 20.2 percentage points; and
- (c) the income of DFA Awards and Fashion Asia Hong Kong decreased by \$0.6 million and \$0.4 million respectively (Note 14), notwithstanding that the expenditure increased by \$4.9 million and \$6.8 million respectively.

Note 14: *According to HKDC, the reasons for the decrease in income included sponsors' reluctance to offer sponsorships in recent years due to their financial status under the COVID-19 epidemic.*

Table 5

I/E ratios of four flagship programmes
(2017-18 to 2021-22)

Flagship programme	2017-18	2018-19	2019-20 (Note)	2020-21	2021-22	Change from 2017-18 to 2021-22
<i>BODW</i>						
Income (\$ million)	5.1	5.2	0.5	4.6	6.5	+1.4
Expenditure (\$ million)	13.5	17.1	18.3	22.0	28.5	+15.0
I/E ratio (%)	37.8	30.4	2.7	20.9	22.8	-15.0
<i>DFA Awards</i>						
Income (\$ million)	3.2	2.8	3.0	2.1	2.6	-0.6
Expenditure (\$ million)	7.9	6.7	11.2	10.9	12.8	+4.9
I/E ratio (%)	40.5	41.8	26.8	19.3	20.3	-20.2
<i>Knowledge of Design Week</i>						
Income (\$ million)	1.0	1.1	1.9	1.1	2.2	+1.2
Expenditure (\$ million)	2.8	3.0	6.5	5.4	7.2	+4.4
I/E ratio (%)	35.7	36.7	29.2	20.4	30.6	-5.1
<i>Fashion Asia Hong Kong</i>						
Income (\$ million)	2.8	2.7	0.1	2.3	2.4	-0.4
Expenditure (\$ million)	9.7	10.0	9.6	14.6	16.5	+6.8
I/E ratio (%)	28.9	27.0	1.0	15.8	14.5	-14.4
<i>Overall</i>						
Income (\$ million)	12.1	11.8	5.5	10.1	13.7	+1.6
Expenditure (\$ million)	33.9	36.8	45.6	52.9	65.0	+31.1
I/E ratio (%)	35.7	32.1	12.1	19.1	21.1	-14.6

Source: Audit analysis of HKDC records

Note: In 2019-20, BODW Summit, DFA Awards Presentation Ceremony and the programmes of Fashion Asia Hong Kong scheduled for early December 2019 were cancelled due to the black-clad violence in 2019. The expenditure for the three flagship programmes concerned comprised manpower and overhead costs as well as project costs incurred for preparing the events.

Flagship programmes

2.42 With a view to improving the overall I/E ratio, Audit considers that HKDC needs to:

- (a) explore measures to improve I/E ratios of BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong; and
- (b) endeavour to increase the amount of income generated from DFA Awards and Fashion Asia Hong Kong.

Need to improve administration of sponsorship

2.43 According to the funding agreement signed between the Government and HKDC in March 2019, HKDC may accept sponsorships and donations provided that the terms and conditions as may be imposed by the sponsors and donors are consistent with the objectives of HKDC. Audit noted that in the period from 2017-18 to 2021-22:

- (a) **Cash sponsorship.** The amount of cash sponsorship received by HKDC for the flagship programmes decreased by \$1.5 million (34%) from \$4.42 million in 2017-18 to \$2.92 million in 2021-22; and
- (b) **In-kind sponsorship.** The amount of in-kind sponsorship received by HKDC for the flagship programmes increased by \$4.09 million (88%) from \$4.65 million in 2017-18 to \$8.74 million in 2021-22. Examples of in-kind sponsorship included complimentary television production services and market research services.

2.44 Audit examined HKDC's sponsorship records for the five flagship programmes conducted in the period from 2019-20 to 2021-22. Audit noted that:

- (a) **No guidelines for handling sponsorship.** HKDC did not lay down guidelines on the procedures for handling sponsorships. As a result, there were variations in HKDC's handling of sponsorships. While customised agreements detailing the terms and conditions for the provision of sponsorships were signed with some sponsors, sponsorship reply forms confirming the values and types of sponsorship were signed with other sponsors; and

- (b) *Some sponsorship reply forms were signed after sponsored programmes had commenced.* Audit examined 100 sponsorship reply forms of the flagship programmes. Audit noted that 36 (36%) of the 100 sponsorship reply forms were signed by the sponsors after the commencement dates of the sponsored programmes, with delays ranging from 1 to 338 days (averaging 85 days).

2.45 Audit considers that HKDC needs to:

- (a) issue guidelines on the procedures for handling sponsorships; and
- (b) take measures to ensure that the sponsorship reply forms are signed before the sponsored programmes commence.

Audit recommendations

2.46 Audit has *recommended* the Head of Create Hong Kong should set a challenging target I/E ratio for HKDC taking into account the actual I/E ratios achieved in preceding years with a view to encouraging HKDC to use its best endeavours to increase its income level to recoup the cost of the programmes funded by the Government.

2.47 Audit has *recommended* that the Executive Director, HKDC should:

- (a) explore measures to improve I/E ratios of BODW, DFA Awards, Knowledge of Design Week and Fashion Asia Hong Kong;
- (b) endeavour to increase the amount of income generated from DFA Awards and Fashion Asia Hong Kong;
- (c) issue guidelines on the procedures for handling sponsorships; and
- (d) take measures to ensure that the sponsorship reply forms are signed before the sponsored programmes commence.

Response from the Government

2.48 The Head of Create Hong Kong agrees with the audit recommendation. He has said that CreateHK has been constantly reviewing the target I/E ratio, and will work closely with HKDC for setting a more challenging and achievable target I/E ratio in future.

Response from the Hong Kong Design Centre

2.49 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) make its best endeavours to improve the I/E ratios;
- (b) explore means to generate more income from its flagship programmes as much as possible;
- (c) issue a guideline for handling sponsorship-related requirements. Indeed, the same recommendation as the one in paragraph 2.47(c) was made in the latest internal audit report, and appropriate actions have already been planned; and
- (d) adopt measures to ensure that signed sponsorship reply forms are submitted before the commencement of the programmes.

PART 3: OTHER PROGRAMMES AND PROJECTS

3.1 This PART examines HKDC's work on implementation of other programmes and projects, focusing on the following areas:

- (a) incubation programmes (paras. 3.2 to 3.25);
- (b) projects funded by CSI outside the dedicated funding (paras. 3.26 to 3.44);
and
- (c) Design District Hong Kong (paras. 3.45 to 3.53).

Incubation programmes

3.2 Pursuant to the Government's strategic direction of nurturing talent and facilitating start-ups, HKDC was commissioned to implement two incubation programmes funded by CSI's dedicated funding. The two programmes, namely DIP and FIP, offer incubatees with financial assistance, working space, mentorship and training programmes, and other incubation services. In 2021-22, HKDC's expenditures on DIP and FIP were \$22.22 million and \$5.14 million respectively.

3.3 **DIP.** DIP was launched in 2006 (Note 15). It offers incubation services to design start-ups over a two-year incubation period to help them build up business network, publicise products and conduct market promotions. Since the launch of DIP in 2006 and up to 31 December 2022, the programme had admitted 353 incubatees. Of the 353 incubatees, 272 (77%) have graduated from the programme. The current phase of DIP, i.e. DIP Phase 4 (DIP IV) was launched on 1 July 2020 and was expected to be completed on 30 June 2025.

3.4 **FIP.** FIP was launched in 2016. It is a programme dedicated to inspiring, empowering and supporting emerging fashion designers and brands with an incubation period of two years. FIP helps up-and-coming fashion designers in promoting and

Note 15: *DIP was launched by the Hong Kong Science and Technology Parks Corporation in 2006. In May 2012, HKDC took over the administration of DIP.*

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exploring opportunities, and connecting with business partners around the world. Since the launch of FIP in 2016 and up to 31 December 2022, the programme had admitted 30 incubatees. Of the 30 incubatees, 20 (67%) have graduated from the programme. The current phase of FIP, i.e. FIP Phase 2 (FIP II), was launched on 1 July 2020 and was expected to be completed on 31 March 2025.

3.5 The eligibility requirements for applying for DIP and FIP and other key features of the programmes as at 31 December 2022 are shown in Table 6.

Table 6

**Eligibility requirements and key features of DIP and FIP
(31 December 2022)**

	DIP	FIP
Major eligibility requirements	<p>The applicant must have:</p> <ul style="list-style-type: none"> (a) a company incorporated in Hong Kong for not more than three years and still in its early stage of development; and (b) in the company at least two full-time staff based in Hong Kong with at least one of them as the major shareholder who must be a designer in a recognised design discipline. 	<p>The applicant must have:</p> <ul style="list-style-type: none"> (a) a registered fashion-related business or brand, which is at least three years old and implements fashion design activities; and (b) exhibited or showcased at least two collections, preferably internationally.
Provision of financial assistance	Up to \$280,000	Up to \$250,000
Participation fee payable by incubatees	Nil	\$1,700 per month

Source: Audit analysis of HKDC records

Need to review provision of working spaces to incubatees

3.6 During the two-year incubation period, DIP and FIP provide incubatees with ready-to-use working spaces in either the Wong Chuk Hang or Kowloon Bay

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incubation centres. For DIP, the working spaces are provided to the incubatees free of charge for the first year and at a monthly rate of \$13 per net square foot (for incubation rooms) or \$900 (for co-working spaces) in the second year of the incubation period. For FIP, the working spaces are provided free of charge throughout the two-year incubation period. The package is inclusive of management fees, government rent and rates, utilities and Internet charges. The incubatees can also make use of services and common facilities such as meeting rooms, and specified office and telecommunication equipment in the incubation centres free of charge.

3.7 In 2021-22, HKDC's expenditure relating to the provision of working spaces and maintenance of incubation centres was \$6.42 million (see Table 7).

Table 7

**HKDC's expenditure relating to provision of working spaces
(2021-22)**

	Expenditure (\$)		
	DIP	FIP	Overall
Rental, charges and expenses (Note)	5,638,169	450,769	6,088,938
Renovation, set-up and equipment	328,062	0	328,062
Total			6,417,000

Source: Audit analysis of HKDC records

Note: The rental, charges and expenses included rental and management fees, government rent and rates, utilities, telecommunications and centre facilities expenses related to the individual working spaces and the common facilities areas in the incubation centres, deducted by the rental borne by DIP incubatees.

3.8 There are four types of working spaces, including 24 incubation rooms with restroom (Type A), 31 incubation rooms (Type B), and 14 co-working spaces (Types C and D). In total, the two incubation centres provide 69 working spaces (see Table 8 and Photographs 3 to 6).

Table 8

**Working spaces in Wong Chuk Hang and Kowloon Bay incubation centres
(31 December 2022)**

Type of working spaces		Location	Minimum size (Gross square foot)	Working spaces		
				DIP	FIP	Total
				(Number)		
<i>Incubation room</i>						
A	Incubation room with restroom	Wong Chuk Hang	490	24	0	24
B	Incubation room	Kowloon Bay	258	21	10	31
Subtotal				45	10	55
<i>Co-working space</i>						
C	Open space with fixed desk	Wong Chuk Hang	193	6	0	6
D		Kowloon Bay	132	8	0	8
Subtotal				14	0	14
Total				59	10	69

Source: Audit analysis of HKDC records

Photograph 3

**A Type A working space — incubation room with restroom
(Wong Chuk Hang)**



Source: HKDC records

Photograph 4

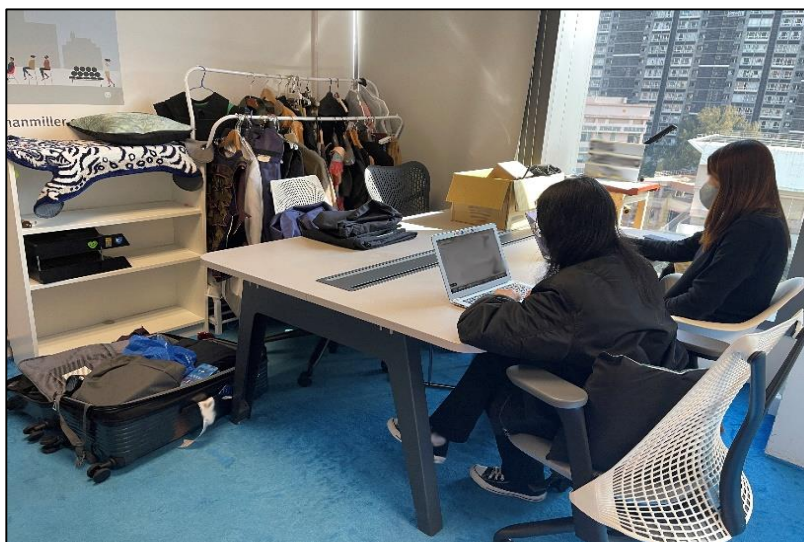
**Type B working spaces — incubation rooms
(Kowloon Bay)**



Source: HKDC records

Photograph 5

**A Type C working space — open space with fixed desk
(Wong Chuk Hang)**



Source: HKDC records

Photograph 6

**A Type D working space — open space with fixed desk
(Kowloon Bay)**



Source: HKDC records

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3.9 In 2019, to facilitate the planning for FIP II, CreateHK engaged a consultant to carry out an evaluation study on the effectiveness of FIP. In the evaluation study report issued in January 2020:

- (a) the consultant stated that:
 - (i) the working spaces were severely underused by the incubatees because the incubatees considered that the working spaces were:
 - too small and had weak soundproof installation; and
 - too far from central business district and not preferable for meeting guests;
 - (ii) as a result, some of the working spaces were used only as a photography studio or a warehouse; and
 - (iii) few incubatees came back to work in the incubation centre and FIP failed to cultivate the collaborative and creative atmosphere; and
- (b) the consultant recommended that:
 - (i) the provision of working spaces should be redesigned, for example, more flexibility should be provided to incubatees to choose the size of working space (i.e. without working space, small working space or large working space) and pay the respective rent;
 - (ii) the environment of the working spaces should be revamped. For example, more open space should be provided to nurture a more cooperative design environment; and
 - (iii) HKDC could organise talks or events occasionally. These renovations could attract incubatees, alumni and students to the incubation centre and promote idea exchange among themselves.

3.10 In response to Audit's enquiry, HKDC informed Audit in February 2023 that HKDC:

- (a) noted the incubatees' feedback in the evaluation study on FIP conducted in 2019. HKDC agreed that there was room for improvement regarding the working spaces;
- (b) noted that incubatees might have different needs in regard of their working spaces. After the evaluation study, HKDC had discussed with newly joined incubatees, who had expressed their needs for working spaces to support their businesses;
- (c) encouraged incubatees to actively meet others and develop business outside the incubation centres. HKDC noticed that most of the incubatees arrived at the incubation centres in the early morning for preparation, left in the afternoon for meeting potential clients, and returned in the late evening to continue with their work; and
- (d) had conducted inspections regularly to monitor the overall utilisation of the working spaces, although the results of the inspections were not documented.

Audit noted that other than the above, HKDC had not taken follow-up actions on the consultant's comments and recommendations.

3.11 Audit reviewed the use of the working spaces by the incubatees and found that:

- (a) HKDC did not maintain records on the utilisation of the working spaces in the incubation centres by the incubatees. As the incubatees were not required to sign in when accessing the venue, there were no records on how often the incubatees worked in the working spaces; and
- (b) the utilisation was low. Audit visited the incubation centres four times in the period from October to December 2022:

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- (i) on 28 October 2022, Audit visited the two incubation centres together with HKDC's staff. Audit found that:
- in the Kowloon Bay incubation centre, there were persons present in 1 (3%) of the 31 Type B incubation rooms and 1 (13%) of the 8 Type D co-working spaces. No persons were seen in the remaining 37 working spaces;
 - no persons were seen in all the 24 Type A and all the 6 Type C working spaces in the Wong Chuk Hang incubation centre; and
 - overall speaking, there were persons present in only 2 (3%) of the 69 working spaces visited; and
- (ii) on 5, 19 and 20 December 2022, Audit visited 8 Type A working spaces in the Wong Chuk Hang incubation centre. In the three visits, Audit found that there were persons present in 2 (25%), 3 (38%) and 5 (63%) of the 8 working spaces visited respectively.

FIP requires that the applicants must have a registered fashion-related business or brand, which is at least three years old. It needs to be well justified to provide the incubatees with working spaces given that they are already in business for at least three years and should already have their own working premises.

3.12 Audit considers that HKDC needs to:

- (a) review the justifications for the provision of working spaces to the incubatees, in particular to FIP incubatees;
- (b) review whether the provision of working spaces meets the incubatees' needs;
- (c) closely monitor the utilisation of working spaces; and
- (d) take measures to ensure that the results of the inspections to the incubation centres are documented and taken into account in the reviews of the provision of working spaces.

Some working spaces were vacant for a long period of time

3.13 Incubatees for DIP and FIP are recruited all year round. HKDC processed DIP and FIP applications in accordance with its intake plan endorsed by CreateHK and having regard to the expected vacancy in working spaces. In 2018, CreateHK asked HKDC to make necessary arrangements to ensure that the vacancy period (i.e. the time between the move-out date of the previous incubatee and the move-in date of the incoming incubatee) of an individual working space would not exceed seven calendar days. CreateHK told HKDC that leaving working space vacant for over a month without legitimate reasons could be tantamount to wastage of public funds and was unacceptable.

3.14 In the period from 2018-19 to 2021-22, the number of working spaces ranged from 61 (April 2018 to June 2019) to 69 (July 2019 to March 2022). Audit examined the vacancy of working spaces in the four-year period from 2018-19 to 2021-22. Audit noted that:

- (a) in 3 of the 4 years (i.e. 2018-19, 2019-20 and 2020-21), there were working spaces with vacancy period exceeding 7 calendar days;
- (b) two working spaces (1 in 2018-19 and 1 in 2020-21) had a vacancy period exceeding 7 calendar days but less than 1 month;
- (c) 6 to 23 working spaces in each of the 3 years had a vacancy period of 1 month or more. The length of the vacancy period ranged from 1 to 7 months in a year, averaging 3 months (see Table 9); and

Table 9

Number of working spaces with vacancy period of 1 month or more
(2018-19 to 2020-21)

Length of vacancy period (Month)	Number of working spaces		
	2018-19	2019-20	2020-21
1 to < 2	1	11	—
2 to < 3	2	1	2
3 to < 4	—	3	2
4 to < 5	3	—	19
5 to < 6	—	1	—
6 to < 7	—	—	—
7	—	1	—
Total	6	17	23
Average length of vacancy period (Month)	2.8	2.0	3.7

Source: Audit analysis of HKDC records

- (d) the total vacant working-space-months (i.e. the sum of the number of months vacant for each working space) ranged from 17 to 86 each year (see Table 10).

Table 10

**Number of vacant working-space-months
(2018-19 to 2020-21)**

Type of working spaces		Location	Number of vacant working-space-months (Note)		
			2018-19	2019-20	2020-21
<i>Incubation room</i>					
A	Incubation room with restroom	Wong Chuk Hang	—	18	36
B	Incubation room	Kowloon Bay	5	11	35
<i>Co-working space</i>					
C	Open space with fixed desk	Wong Chuk Hang	—	2	8
D		Kowloon Bay	12	3	7
Total			17	34	86

Source: Audit analysis of HKDC records

Note: The number of vacant working-space-months refers to the sum of the number of months vacant for each working space.

3.15 Audit noted that the vacancy of working spaces was particularly severe in 2019-20 and 2020-21. Audit examined HKDC's work plan and records and noted that:

- (a) in February 2019, owing to the expectation of insufficient working spaces to accommodate the target number of incubatees in DIP Phase 3 (DIP III), approval had been sought from CreateHK by HKDC for renting additional space for 8 Type A incubation rooms in Wong Chuk Hang for the period from 1 June 2019 to 30 June 2021:

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- (i) in August 2019, HKDC invited 17 existing incubatees who would be graduating soon to extend their room rental in the period from September 2019 to March 2020 at market rate. In September 2019, 2 of the 17 incubatees agreed that they would extend the room rental. One incubatee extended for 1 month and another for 5 months; and
 - (ii) with the additional 8 incubation rooms available since 1 June 2019, new incubatees were allocated to the new incubation rooms, leaving 8 existing incubation rooms vacant after the then existing incubatees moved out; and
- (b) in March 2020, HKDC sought CreateHK's approval for admitting the incubatees of DIP IV and FIP II and arranging their moving-in to the working spaces on 1 April 2020. CreateHK informed HKDC in the same month that the request could not be acceded because, among others, some plans and reports required for the 2020-21 funding cycle under the \$300 million dedicated funding was not yet finalised by HKDC or approved by CreateHK. With CreateHK's approval, HKDC had postponed the commencement of DIP IV and FIP II from 1 April to 1 July 2020. During the vacancy period, HKDC temporarily opened some incubation rooms to DIP III and FIP Phase 1 (FIP I) incubatees' common use.

3.16 Audit considers that HKDC needs to:

- (a) continue to monitor the allocation of working spaces in the incubation centres, particularly when launching the new phases of DIP and FIP; and
- (b) draw experience from the previous incubatee admission and working space allocation arrangements with a view to improving the planning for working space allocation and minimising the vacancy period of working spaces.

Delays in submission of plans and reports

3.17 Since the launch of DIP III and FIP I on 1 August 2016 and up to 31 December 2022, HKDC has been required by the funding agreements between the Government and HKDC to submit 44 plans and reports to CreateHK. The 44 plans and reports comprised 5 three-year business plans, 6 annual plans, 10 operational

reports and 1 completion report each for DIP III and FIP I, i.e. $(5 + 6 + 10 + 1) \times 2 = 44$. Audit reviewed HKDC's records of submission and noted that 28 (64%) of the 44 plans and reports were submitted late, with delays ranging from 1 to 115 days, averaging 37 days (see Table 11).

Table 11

**Delays in submission of plans and reports for DIP III and FIP I
(1 August 2016 to 31 December 2022)**

Delay (Days)	Three-year business plan	Annual plan	Operational report	Completion report	Total
No delay	2	4	8	2	16 (36%)
1 to <30	6	6	8	—	20 (46%)
30 to <90	—	—	1	—	1 (2%)
≥90 (Note)	2	2	3	—	7 (16%)
Total	10	12	20	2	44 (100%)

Source: Audit analysis of HKDC records

Note: The longest delay was 115 days, which was the delay in the submission of a three-year business plan, an annual plan, and an operational report of DIP III and FIP I.

3.18 Audit considers that HKDC needs to take measures to ensure that the three-year business plans, annual plans, operational reports and completion reports are submitted to CreateHK in a timely manner in accordance with the deadlines stipulated in the funding agreements.

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Admission of DIP graduates as FIP incubatees

3.19 According to the funding agreements between the Government and HKDC:

- (a) the admission criteria for DIP and FIP are different:
 - (i) DIP applicants should have a company incorporated in Hong Kong for not more than three years; and
 - (ii) FIP applicants must have track records of at least three years; and
- (b) existing DIP incubatees who have not yet graduated are not eligible to apply for FIP.

3.20 In the period from August 2016 to December 2022, 30 incubatees (15 in FIP I and 15 in FIP II) were admitted to FIP. Audit found that:

- (a) ***High percentage of FIP incubatees were DIP graduates.*** In FIP I, 6 (40%) of the 15 incubatees were DIP graduates. In FIP II, the number and percentage of DIP graduates was even higher. Of the 15 FIP II incubatees, 14 (93%) were DIP graduates. Only 1 (7%) of the 15 FIP II incubatees was not DIP graduate; and
- (b) ***DIP incubatees not yet graduated were admitted to FIP.*** In late June 2022, the applications from 3 DIP incubatees who had not yet graduated were approved for admission to FIP, contrary to the requirement of the funding agreements. These DIP incubatees graduated on 31 July 2022 (see para. 3.19(b)).

3.21 In response to Audit's enquiry, CreateHK and HKDC informed Audit in February 2023 that:

- (a) FIP accepted applications from both DIP incubatees and the public;
- (b) similar to other applicants, DIP graduates were subject to the scrutiny of the admission panels; and

- (c) the furthering of incubational support as provided in FIP could be viewed as a motivation for DIP incubatees, encouraging them to work more intensely to build up their foundation at DIP, getting more well-prepared to qualify for the admission to FIP where their skill-set and other aspects of running a design business would be enhanced.

3.22 In Audit's view, the large number of DIP graduates being admitted to FIP may not be compatible with the original intention of launching DIP and FIP because:

- (a) by admitting a DIP graduate into FIP, HKDC will provide a total of four years (two years for DIP and another two years for FIP) of incubation services to the incubatee. With a high percentage of FIP incubatees being DIP graduates, FIP virtually became an extension of DIP;
- (b) the provision of such a long period of incubation services to incubatees may not be conducive to the achievement of the objectives of DIP and FIP; and
- (c) there are merits for HKDC to admit FIP incubatees with diversified backgrounds other than those graduated from DIP.

3.23 Audit considers that HKDC should:

- (a) review whether the admission of a high percentage of FIP incubatees from DIP graduates is conducive to the achievement of the objectives of DIP and FIP;
- (b) explore the merits of admitting FIP incubatees with a more diversified background, including admitting more FIP incubatees who are not DIP graduates; and
- (c) take measures to ensure that applications for FIP from existing DIP incubatees who have not yet graduated are not approved.

Audit recommendations

3.24 **Audit has *recommended* that the Executive Director, HKDC should:**

- (a) **review the justifications for the provision of working spaces to the incubatees, in particular to FIP incubatees;**
- (b) **review whether the provision of working spaces meets the incubatees' needs;**
- (c) **closely monitor the utilisation of working spaces;**
- (d) **take measures to ensure that the results of the inspections to the incubation centres are documented and taken into account in the reviews of the provision of working spaces;**
- (e) **continue to monitor the allocation of working spaces in the incubation centres, particularly when launching the new phase of DIP and FIP;**
- (f) **draw experience from the previous incubatee admission and working space allocation arrangements with a view to improving the planning for working space allocation and minimising the vacancy period of working spaces;**
- (g) **take measures to ensure that the three-year business plans, annual plans, operational reports and completion reports are submitted to CreateHK in a timely manner in accordance with the deadlines stipulated in the funding agreements;**
- (h) **review whether the admission of a high percentage of FIP incubatees from DIP graduates is conducive to the achievement of the objectives of DIP and FIP;**
- (i) **explore the merits of admitting FIP incubatees with a more diversified background, including admitting more FIP incubatees who are not DIP graduates; and**

- (j) **take measures to ensure that applications for FIP from existing DIP incubatees who have not yet graduated are not approved.**

Response from the Hong Kong Design Centre

3.25 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) review the current mechanism of the provision of working spaces to the incubatees;
- (b) subject to (a), review the design parameters of the working spaces to better meet the needs of the incubatees;
- (c) conduct regular inspections to monitor the utilisation of working spaces;
- (d) document the results of inspections and take into account the results when reviewing the provision of working spaces;
- (e) review the allocation of working spaces in the incubation centres when launching the new phase of DIP and FIP;
- (f) review the previous admission and space allocation arrangements to improve the planning for working space allocation and to minimise the vacancy period of working spaces. He explained that the prolonged black-clad violence in 2019 and COVID-19 epidemic had affected the take-up and occupancy rate of the working spaces in 2019-20 and 2020-21;
- (g) submit the required plans and reports in a timely manner;
- (h) review the future admission mechanism of FIP incubatees;
- (i) explore measures to admit FIP incubatees with diversified background and enhance promotion of the programme to designers who are not DIP graduates; and

- (j) ensure that all applications comply with the stipulated requirements.

Projects funded by CreateSmart Initiative outside the dedicated funding

3.26 CSI funds projects with objectives that are in line with CSI's strategic directions to drive the development of the creative industries, namely:

- (a) nurturing talents and facilitating start-ups;
- (b) exploring markets; and
- (c) promoting Hong Kong as Asia's creative capital and fostering a creative atmosphere in the community.

3.27 ***Application for CSI funding.*** Applicants should normally be locally registered institutions or organisations, including local academic institutes, industry support organisations, trade and industry associations, professional bodies, research institutes and companies (established or incorporated under the Hong Kong laws including the Companies Ordinance (Cap. 622)). A project generally lasts for less than one year. Applications are accepted throughout the year. The applications are vetted by CreateHK as CSI Secretariat and assessed by CSI Vetting Committee (Note 16). After the application assessments, CSI Vetting Committee will make recommendations to PSCST on the approvals of applications. CSI Guide, issued by CreateHK, provides information on the application for CSI funding.

3.28 ***HKDC projects funded by CSI outside the dedicated funding.*** In the period from 1 April 2017 to 31 December 2022, 9 HKDC projects were funded by CSI outside the dedicated funding. As at 31 December 2022, 8 of the 9 projects had been completed. The amount of funding approved for each project ranged from \$867,000 to \$9.9 million.

Note 16: *CSI Vetting Committee comprises professionals, representatives from the private sector, academics and other relevant members of the public. Its functions are to assess applications, make recommendations to PSCST, and monitor and review the quality of approved projects.*

Funding applications not submitted in a timely manner

3.29 According to CSI Guide:

- (a) CSI Secretariat's processing time for funding application is 50 clear working days after receiving all the required information from HKDC; and
- (b) if HKDC chooses to incur/commit any expenditure for the projects under application before funding approval is confirmed, it will have to bear its own risk and pay for the incurred/committed expenditure itself in case the funding applications are rejected or only partially approved subsequently.

3.30 Audit reviewed HKDC's records on the submission of project applications and project commencements in the period from 1 April 2017 to 31 December 2022. Audit noted that:

- (a) 8 (89%) of the 9 projects commenced before receiving funding approvals; and
- (b) for 5 (63%) of the 8 projects commenced before receiving funding approvals, HKDC submitted the funding applications to CreateHK less than 50 clear working days before the project commencements, ranging from 0 to 43 clear working days before project commencements, averaging 14 clear working days.

3.31 Audit considers that HKDC needs to take measures to ensure that funding applications are submitted to CreateHK at least 50 clear working days prior to project commencements.

Progress reports accepted after completion of projects

3.32 The planned duration of 2 of the 9 projects were over 1 year. According to CSI Guide and the project agreements signed between Government and HKDC, for the 2 projects:

Other programmes and projects

- (a) HKDC is required to submit to CreateHK progress reports that contain details on the progress and financial positions of the projects for the first half of the project durations; and
- (b) the progress reports should be submitted by the end of the following month after the reporting period.

3.33 CSI Secretariat and CSI Vetting Committee are responsible for the vetting and assessment of the progress reports respectively. PSCST will accept the progress reports based on the recommendation of CSI Vetting Committee. Audit reviewed the acceptance of progress reports of the 2 projects and found that the progress reports were accepted 3 days and one month respectively after the projects have been completed.

3.34 In response to Audit's enquiry, CreateHK informed Audit in February 2023 that:

- (a) for the processing of progress reports, it was usually necessary for CreateHK to carry out rounds of clarifications on points of doubts and to obtain supplementary information before the progress reports were finalised. The timing for the acceptance of the progress reports depended very much on when full information was available; and
- (b) for one of the projects, the situation of COVID-19 epidemic was severe when the progress report was submitted and CreateHK was unable to conduct physical panel meetings. Considerable time was taken in clarifying members' comments and seeking their agreements to the recommendations by way of circulation, which lengthened the processing time. Furthermore, CreateHK was transferred to CSTB on 1 July 2022 and some time was taken to sort out the line of command under the new government structure, which had contributed to the delays in the acceptance of the progress reports.

3.35 Audit considers that CreateHK needs to take measures to ensure that progress reports are processed in a timely manner and accepted before the completion of projects so that any comments on the progress and financial positions of the projects can be addressed before project completion.

Long time taken in the revision and acceptance of completion reports

3.36 According to CSI Guide:

- (a) HKDC is required to submit completion report and audited accounts to CSI Secretariat within 4 months from the project completion date;
- (b) HKDC will be informed of the evaluation result within 50 clear working days after receipt of full information of the completion reports; and
- (c) the final instalment of CSI funding will be disbursed to HKDC upon PSCST's acceptance of the completion reports.

3.37 Audit reviewed the processing of the completion reports of the 8 completed projects (see para. 3.28), of which 7 have been accepted as at 31 December 2022. Audit found that:

- (a) ***Long time taken to revise completion reports.*** Upon receipt of the completion reports submitted by HKDC, CSI Secretariat will conduct vetting, and seek applicants' clarifications and revisions of the reports when necessary. Audit noted that HKDC had taken 44 to 154 days (averaging 93 days) to submit the revised completion reports after receiving CreateHK's comments; and
- (b) ***Long time taken to accept completion reports.*** For 2 (29%) of the 7 accepted completion reports, the stipulated time of informing applicants of the results within 50 clear working days was not met, with delays of 20 and 43 clear working days respectively (averaging 31.5 clear working days). The delays arose because long time had been taken to accept the reports before informing the applicants.

3.38 In response to Audit's enquiry, CreateHK informed Audit in February 2023 that:

- (a) there had been many rounds of clarifications between CreateHK and HKDC during the period between HKDC's first submission of completion reports and the submission of revised reports. For some projects, the

Other programmes and projects

work-from-home arrangement for both CreateHK and HKDC arising from the situation of COVID-19 epidemic had restricted the communication between CreateHK and HKDC in the processing of completion reports; and

- (b) for one of the projects in paragraph 3.37(b), the submission was made only after the previous batch of completion reports were accepted with a view to capturing the amount of funding available before proceeding with the next batch of completion reports. For the other project, the delay was caused by the long time taken in clarifying the comments and seeking the consensus of CSI Vetting Committee members by way of circulation.

3.39 Audit considers that CreateHK needs to take measures to ensure that:

- (a) completion reports requiring revisions are resubmitted by HKDC in a timely manner; and
- (b) completion reports are processed and accepted in a timely manner.

3.40 Audit considers that HKDC needs to take measures to ensure that completion reports requiring revisions are revised and resubmitted to CreateHK in a timely manner.

Audit recommendations

3.41 Audit has *recommended* that the Head of Create Hong Kong should take measures to ensure that:

- (a) **progress reports are processed in a timely manner and accepted before the completion of projects so that any comments on the progress and financial positions of the projects could be addressed before project completion;**
- (b) **completion reports requiring revisions are resubmitted by HKDC in a timely manner; and**
- (c) **completion reports are processed and accepted in a timely manner.**

3.42 Audit has *recommended* that the Executive Director, HKDC should take measures to ensure that:

- (a) funding applications are submitted to CreateHK at least 50 clear working days prior to project commencements; and**
- (b) completion reports requiring revisions are revised and resubmitted to CreateHK in a timely manner.**

Response from the Government

3.43 The Head of Create Hong Kong agrees with the audit recommendations. He has said that CreateHK will:

- (a) accord higher priority to putting up progress reports, particularly those for projects with duration over one year, for discussion at physical panel meetings for effective deliberations;**
- (b) continue to closely monitor the implementation of approved projects through liaising with project grantees and conducting site visits to project events, and provide advice to project grantees as and when improvement areas are identified in the interim before formal acceptance of progress reports;**
- (c) set a shorter but reasonable response time for each round of questions issued to grantees and closely monitor the progress to ensure the timely submission of the required revision; and**
- (d) closely monitor the processing of completion reports to ensure that the grantees will be informed of the evaluation result within 50 clear working days after receipt of full information of the completion reports.**

Response from the Hong Kong Design Centre

3.44 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

Other programmes and projects

- (a) submit funding applications with sufficient working days prior to project commencements; and
- (b) submit the revised reports to CreateHK according to the stipulated submission deadline.

Design District Hong Kong

3.45 In 2018, HKDC was commissioned by the Tourism Commission to organise a three-year creative tourism project, namely Design District Hong Kong. Design District Hong Kong aimed to:

- (a) support the development of creative tourism and boost tourism;
- (b) uphold the vision to establish Hong Kong as a centre of design excellence in Asia; and
- (c) enhance the livability in the districts and strengthen Hong Kong's unique identity.

The project comprised various place-making artworks and creative tourism events to enhance the appeal of Wan Chai and Sham Shui Po Districts.

3.46 An agreement was signed between the Tourism Commission and HKDC to provide funding of up to \$60 million to HKDC for organising the Design District Hong Kong project in the period from 1 April 2018 to 31 March 2021. Due to the outbreak of the COVID-19 epidemic, a supplementary agreement was signed to extend the project period to 30 September 2021.

Need to ensure that annual reports and quarterly reports are submitted in a timely manner

3.47 According to the funding agreement between the Tourism Commission and HKDC, HKDC shall submit to the Tourism Commission:

- (a) an annual report, accompanied by the financial statements, by 30 April each year, showing the position as at 31 March of the respective year. If the project is completed prior to 31 March of the year, an annual report should be submitted showing the position as at the project completion date; and
- (b) a quarterly report, accompanied by the financial statements, for the first, second and third quarters of each financial year by the end of July, October and January respectively. Submission of quarterly report for the fourth quarter of the financial year is not required because the contents are covered in the annual report.

3.48 Audit reviewed HKDC's records on the submission of annual reports and quarterly reports in the period from 1 April 2018 to 30 September 2021. Audit noted that:

- (a) of the 3 annual reports due in the period:
 - (i) 2 (67%) were submitted late, with delays of 10 and 5 days respectively. The financial statements that should accompany the annual reports were submitted 21 and 18 days after the deadlines; and
 - (ii) 1 (33%), which should cover the year ended 31 March 2021, was not submitted. Instead:
 - a quarterly report was submitted 3 days after the annual report submission deadline; and
 - an annual report covering the period from 1 April 2020 to 31 July 2021 was submitted in August 2021. The financial statements contained therein covered the period from 1 April 2020 to 30 June 2021. There was no documentary evidence showing that approval had been obtained for changing the period covered in the annual report and financial statements contained therein; and
- (b) of the 8 quarterly reports due in the period:

Other programmes and projects

- (i) 3 (38%) were submitted late, with delays ranging from 3 to 26 days, averaging 15 days; and
- (ii) for 2 (25%) of the quarterly reports (including 1 that was submitted late), the financial statements that should accompany the quarterly reports were submitted 17 and 20 days after the deadlines.

3.49 Audit considers that HKDC needs to take measures to ensure that annual reports and quarterly reports are submitted in a timely manner.

Need to ensure that Steering Committee meetings are held according to the requirements stipulated in funding agreement

3.50 According to the funding agreement, HKDC shall convene a Steering Committee responsible for overseeing the implementation of the Design District Hong Kong project. The Steering Committee shall meet at quarterly intervals, or at any time upon the request by HKDC or the Tourism Commission. Audit reviewed the records of Steering Committee meetings in the period from 1 April 2018 to 30 September 2021. Audit noted that no meetings were held in the period from 18 November 2020 to 30 September 2021. However, there was no documentary evidence showing the justifications for not holding the Steering Committee meetings as required by the funding agreement.

3.51 Audit considers that HKDC needs to take measures to ensure that, for future projects, Steering Committee meetings are held according to the requirements stipulated in the funding agreements.

Audit recommendations

3.52 **Audit has recommended that the Executive Director, HKDC should take measures to ensure that:**

- (a) **annual reports and quarterly reports are submitted in a timely manner; and**

- (b) **for future projects, Steering Committee meetings are held according to the requirements stipulated in the funding agreements.**

Response from the Hong Kong Design Centre

3.53 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC will:

- (a) submit the annual reports and quarterly reports according to the stipulated submission deadlines; and
- (b) arrange necessary meetings in accordance with the stipulated requirements.

PART 4: OTHER ISSUES

4.1 This PART examines other issues of HKDC, focusing on the following areas:

- (a) safeguarding national security (paras. 4.2 to 4.5);
- (b) corporate governance (paras. 4.6 to 4.21);
- (c) compliance with funding agreements (paras. 4.22 to 4.27);
- (d) staff management (paras. 4.28 to 4.33); and
- (e) HKDC's website (paras. 4.34 to 4.38).

Safeguarding national security

Need to strengthen regulation over matters concerning the safeguarding of national security

4.2 The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (National Security Law) was implemented on 30 June 2020. The National Security Law stipulates that:

- (a) it is the constitutional duty of the Hong Kong Special Administrative Region to safeguard national security;
- (b) the executive authorities of the Hong Kong Special Administrative Region shall effectively prevent, suppress and impose punishment for any act or activity endangering national security in accordance with the National Security Law and other relevant laws; and
- (c) the Hong Kong Special Administrative Region shall strengthen its work on safeguarding national security and prevention of terrorist activities. The Government of the Hong Kong Special Administrative Region shall take

necessary measures to strengthen public communication, guidance, supervision and regulation over matters concerning national security, including those relating to schools, universities, social organisations, the media, and the Internet.

4.3 Audit noted that the funding agreements between the Government and HKDC had not incorporated guidelines and requirements related to the safeguarding of national security. Audit considers that CSTB needs to incorporate guidelines and requirements in future funding agreements to strengthen regulation over matters concerning the safeguarding of national security.

Audit recommendation

4.4 Audit has *recommended* that the Secretary for Culture, Sports and Tourism should incorporate guidelines and requirements in future funding agreements to strengthen regulation over matters concerning the safeguarding of national security.

Response from the Government

4.5 The Secretary for Culture, Sports and Tourism agrees with the audit recommendation. He has said that in fact, CSTB has already implemented the relevant recommendation through an updated funding agreement signed with HKDC in March 2023.

Corporate governance

Need to improve attendance of some Directors in Board meetings

4.6 HKDC's Board is responsible for steering and overseeing HKDC's operations. There are three classes of Directors in HKDC:

- (a) ***Class A.*** Five Directors are nominated to represent the five design associations;

Other issues

- (b) **Class B.** A minimum of five Directors are elected from the design/cultural/creative sectors, business/industry sectors, and professional/academics/industry support organisations; and
- (c) **Class C.** A maximum of two Directors are appointed by the Government.

As at 31 December 2022, there were 24 Directors (including the Chairman), comprising 5 Class A, 18 Class B and 1 Class C Directors.

4.7 HKDC's Corporate Governance Manual provides guidance to HKDC to operate economically, efficiently and effectively. According to the Manual, the major duties and obligations of the Directors are to:

- (a) attend and participate in meetings of the Board and its committees; and
- (b) undertake diligent analysis of all proposals placed before the Board, and to make sound comments, recommendations and decisions that are in the best interest of HKDC.

4.8 In the period from 2017-18 to 2021-22, 5 Board meetings were held in each year. In each year during the five-year period, the overall attendance rates of the Directors ranged from 55% to 78% (averaging 65%). Among the three classes of Directors, the attendance rates of Class B Directors were relatively low, ranging from 49% to 74% (averaging 61%) (see Table 12).

Table 12

**Attendance rate at Board meetings
(2017-18 to 2021-22)**

Year	Attendance rate of Directors			
	Class A	Class B	Class C	Overall
2017-18	64%	50%	100%	55%
2018-19	72%	49%	100%	57%
2019-20	60%	59%	100%	61%
2020-21	60%	74%	100%	72%
2021-22	88%	73%	100%	78%
Average	69%	61%	100%	65%

Source: Audit analysis of HKDC records

4.9 Audit considers that CreateHK needs to closely monitor the attendance rates of Directors at the Board meetings and, when necessary, take measures to encourage Directors to avoid absences from the Board meetings as far as possible.

Need to ensure that Board members comply with requirements on declaration of interest

4.10 A conflict of interest situation arises when the private interest (both the financial and personal interests) of a Board member competes or conflicts with the interest of the Board. According to HKDC's Corporate Governance Manual, all Board members are required to follow a two-tier reporting system for managing potential conflict of interests, as follows:

Other issues

- (a) ***Submission of Register of Members' Interest forms.*** The Board members shall register in writing their personal interest, direct or indirect, pecuniary or otherwise, by submitting the Register of Members' Interest forms at the time of first appointment and annually thereafter. Declaration of interests, including directorships of companies, remunerated employments and shareholdings in companies, is required; and
- (b) ***Declaration of interests at meetings.*** If a Board member has any direct personal or pecuniary interest in any matter under consideration by the Board, he must, as soon as practicable after he has become aware of it, disclose to the Chairman (or the Board) prior to the discussion of the matter.

4.11 Audit examined the records of submission of the Register of Members' Interest forms by Board members in the period from 1 January 2018 to 31 December 2022. Audit noted that:

- (a) ***Submission of Register of Members' Interest forms at the time of first appointment.*** Of the 20 Board members having first appointment in the period:
 - (i) HKDC had not issued requests to 11 (55%) for submission of Register of Members' Interest forms; and
 - (ii) 14 (70%) had not submitted the Register of Members' Interest forms for first appointment, including the 11 members to whom the requests for submission had not been issued by HKDC (see (a)(i) above). There was no documentary evidence showing that HKDC had followed up with the Board members on the outstanding forms; and
- (b) ***Annual submission of Register of Members' Interest forms.*** Of the 126 annual Register of Members' Interest forms due for submission in the period:
 - (i) HKDC had not issued requests to the Board members for submission of 25 (20%) forms; and

- (ii) 50 (40%) had not been submitted by the Board members, including 15 for which the requests for submission had not been issued by HKDC (see (b)(i) above). There was no documentary evidence showing that HKDC had followed up with the Board members on the outstanding forms.

4.12 Managing conflict of interest is important to good governance and maintaining public trust. Audit considers that HKDC needs to take measures to ensure that the Register of Members' Interest forms are submitted by the Board members in a timely manner.

Delays in serving meeting agenda to Board members

4.13 HKDC's Corporate Governance Manual requires that agenda of the Board meeting shall be served to the Board members at least three days in advance of the meeting. Audit reviewed HKDC's records on serving meeting agenda to the Board members in the period from 2017-18 to 2021-22. Audit noted that for 6 (24%) of the 25 Board meetings held in the period, the requirement could not be met. The delays ranged from 1 to 2 days.

4.14 Audit considers that HKDC needs to take measures to ensure that meeting agenda is served to the Board members within the stipulated timeframe.

Late submission of and long time taken in endorsements of three-year business plans and annual plans

4.15 According to the funding agreements between the Government and HKDC, HKDC shall submit three-year business plans and annual plans by stipulated deadlines for CSTB's endorsements. Audit reviewed the records for submissions and endorsements of HKDC's three-year business plans and annual plans in the six-year period from 2017-18 to 2022-23 and noted that:

- (a) for 3 (50%) of the 6 years, the three-year business plans and annual plans were submitted later than the stipulated deadlines or the extended deadline agreed by CreateHK. The delays ranged from 11 to 272 days (averaging

Other issues

100 days) for the three-year business plans and 7 to 17 days (averaging 12 days) for the annual plans; and

- (b) for all the 6 years, the endorsements of the three-year business plans and annual plans were obtained after the period covered by the plans had commenced. The time periods from the start of the period to the endorsements of the three-year business plans and annual plans ranged from 1 to 264 days (averaging 82 days) and from 1 to 107 days (averaging 39 days) respectively.

4.16 Audit considers that CreateHK and HKDC need to take measures to ensure that the three-year business plans and annual plans are submitted in a timely manner and endorsements are obtained from CSTB prior to the start of the period concerned.

Audit recommendations

4.17 Audit has *recommended* that the Head of Create Hong Kong should closely monitor the attendance rates of Directors at the Board meetings and, when necessary, take measures to encourage Directors to avoid absences from the Board meetings as far as possible.

4.18 Audit has *recommended* that the Executive Director, HKDC should take measures to ensure that:

- (a) the Register of Members' Interest forms are submitted by the Board members in a timely manner; and
- (b) meeting agenda is served to the Board members within the stipulated timeframe.

4.19 Audit has *recommended* that the Head of Create Hong Kong and the Executive Director, HKDC should take measures to ensure that the three-year business plans and annual plans are submitted in a timely manner and endorsements are obtained from CSTB prior to the start of the period concerned.

Response from the Government

4.20 The Head of Create Hong Kong agrees with the audit recommendations. He has said that CreateHK:

- (a) has been closely monitoring the attendance rates of Directors at the Board/Committee meetings. The attendance rates of Directors were one of the factors for considering the previous re-appointments of Class B Directors of the Board by the then Secretary for Commerce and Economic Development;
- (b) notes that HKDC has been making endeavours to secure the attendance of Directors before the meetings, and will offer the option of attendance by online conferencing if the Director is not physically available for the meeting;
- (c) will continue to closely monitor the attendance rates of Directors at the Board/Committee meetings, and actively communicate with the Board Chairman and HKDC to encourage/facilitate Director's attendance, and take into account the attendance rates of Directors when making recommendations to the Secretary for Culture, Sports and Tourism on re-appointments;
- (d) has been closely monitoring HKDC's submissions of its three-year business plans and annual plans in accordance with the deadlines stipulated in the funding agreements, and provides timely comments/guidance to facilitate HKDC's submissions; and
- (e) will continue to closely monitor HKDC's submissions of the plans with a view to obtaining CSTB's endorsements prior to the start of the period concerned.

Response from the Hong Kong Design Centre

4.21 The Executive Director, HKDC agrees with the audit recommendations. He has said that HKDC:

Other issues

- (a) had included the declaration of interests at every Board/Committee meeting since 2021 after conducting the review on the Corporate Governance Manual. Measures will also be taken to ensure the submissions of Register of Members' Interest forms by the Board members in a timely manner;
- (b) will ensure the circulation of agenda to Board members within the stipulated timeframe; and
- (c) will ensure the timely submissions of the three-year business plans and annual plans as required.

Compliance with funding agreements

Need to ensure compliance with funding agreements

4.22 In July 2020, the Head of Create Hong Kong informed the then Permanent Secretary for Commerce and Economic Development (Communications and Creative Industries) (PSCCI — see Note 3 to para. 1.5) that:

- (a) in March 2020, a resigned staff of HKDC wrote to CreateHK alleging that, among others, HKDC had mistakenly treated its staff salary paid by the Government as HKDC's in-kind sponsorship required in the Design District Hong Kong project commissioned by the Tourism Commission;
- (b) based on HKDC's latest projection, it had pitched a sum of \$3.8 million (comprising manpower of \$2.79 million, and overhead and administrative costs of \$1.01 million) charged under the CSI funding provided in the period from 2018-19 to 2020-21 as its in-kind sponsorship into the Design District Hong Kong project; and
- (c) HKDC's pitching of the \$3.8 million funding as in-kind contribution to the Design District Hong Kong project without the Controlling Officer (i.e. PSCCI)'s approval was a breach of HKDC's funding agreement with the Government.

In August 2020, PSCCI issued a warning letter to urge HKDC's Board Chairman to tackle the non-compliance and breach of the funding agreement regarding using the CSI funding to support the Design District Hong Kong project (Note 17).

4.23 Audit noted that in the period from 2019-20 to 2021-22, apart from the warning letter issued in August 2020, CreateHK also expressed its concern on HKDC's non-compliance with the funding agreements signed between the Government and HKDC:

- (a) in August 2019, CreateHK issued a letter to inform HKDC of PSCCI's retrospective approval of the creation of a new budget item for 2019-20 as requested by HKDC. CreateHK stated that this was yet another case of non-compliance of HKDC in administering Government fund in accordance with the agreements signed between the Government and HKDC, and considered that the repeated occurrence of similar non-compliance cases in recent years in spite of CreateHK's multiple repeated reminders via letters, emails and in various HKDC meetings had been worrying. HKDC was strongly reminded once again to properly seek prior approval in a timely manner, review the overall reporting and monitoring mechanism, and take remedial actions promptly to ensure compliance with formal procedures and avoid similar cases from recurring; and
- (b) in January 2022, CreateHK wrote to HKDC to express serious concern over two cases of unauthorised re-deployment of funds from the designated bank accounts of two CSI projects by HKDC in 2020 (with repayments subsequently made to the designated bank accounts within the same year). HKDC was strongly urged to critically review its existing accounting and financing procedures and put in place all necessary internal controls and safeguards to forestall any future non-compliance.

Note 17: *In October 2020, HKDC admitted that it was not aware of the need to seek PSCCI's prior approval for using the CSI funding to support the Design District Hong Kong project by way of in-kind sponsorship, and wrote to seek retrospective approval from PSCCI accordingly. In view of the nature of the project which was in line with HKDC's mission and its positive impacts created in the community, CreateHK recommended and PSCCI granted a retrospective approval for HKDC's in-kind sponsorship contribution to the project.*

Other issues

4.24 In response to Audit's enquiry, CreateHK informed Audit in December 2022 that:

- (a) to strengthen HKDC's corporate governance, particularly its capacity in compliance with the Government requirements, the Deputy Executive Director position was created in October 2018 to assist the Executive Director in this regard; and
- (b) as endorsed by HKDC's Board and approved by the Controlling Officer, HKDC had since 2021-22 outsourced its internal audit functions to a well-established major accounting firm focusing on, among others, funds management, which helped identify its internal control deficiencies or non-compliance as well as areas for improvement. This internal audit exercise was conducted annually where the engaged accounting firm reported directly to HKDC's Audit Committee.

4.25 Audit considers that HKDC needs to ensure compliance with funding agreements between the Government and HKDC, including:

- (a) monitoring the effectiveness of outsourced internal audit functions and ensuring that any audit findings identified through the annual internal audit exercise will be followed up effectively; and
- (b) exploring measures to prevent recurrence of cases of non-compliance in administering Government fund in accordance with the agreements signed between the Government and HKDC.

Audit recommendations

4.26 **Audit has *recommended* that the Executive Director, HKDC should ensure compliance with funding agreements between the Government and HKDC, including:**

- (a) **monitoring the effectiveness of outsourced internal audit functions and ensuring that any audit findings identified through the annual internal audit exercise will be followed up effectively; and**

- (b) **exploring measures to prevent recurrence of cases of non-compliance in administering Government fund in accordance with the agreements signed between the Government and HKDC.**

Response from the Hong Kong Design Centre

4.27 The Executive Director, HKDC agrees with the audit recommendations. He has said that:

- (a) the proposed internal audit plans are reviewed annually. An action plan following the audit reports will also be submitted to each Audit Committee meeting for endorsement and for monitoring the progress of the follow-up actions; and
- (b) HKDC has planned to establish and maintain a compliance checklist, which lists out and defines the written requirements in each of the agreements signed with the Government.

Staff management

High staff turnover rates and vacancy rates

4.28 ***Staff turnover rates.*** HKDC has started to compile annual staff turnover rates in 2019-20. Audit reviewed HKDC's staff turnover rates in the period from 2019-20 to 2021-22. Audit noted that overall speaking, the staff turnover rates were high, ranging from 21.3% in 2020-21 to 48.4% in 2021-22 (averaging 36.4%) (see Table 13).

Table 13

**Annual staff turnover rates of HKDC
(2019-20 to 2021-22)**

	2019-20	2020-21	2021-22	Average
Staff turnover rate	39.5%	21.3%	48.4% (Note)	36.4%

Source: Audit analysis of HKDC records

Note: The staff turnover rate for 2021-22 has excluded the staff employed under the Job Creation Scheme, whose employment period ranged from 5 to 12 months. If these staff were included, the turnover rate for 2021-22 would be 80.5%.

Remarks: The staff turnover rates have excluded part-time staff and interns, whose employment period was usually less than 6 months.

4.29 **Staff vacancy rates.** As at 31 December 2022, HKDC has an establishment of 104 staff (including 28 positions funded by the Job Creation Scheme). As at 31 December 2022, 24 (23.1%) of the 104 positions were vacant (including 7 (25%) of the 28 Job Creation Scheme-funded positions). Audit examined the vacancy rates of positions (other than those funded by the Job Creation Scheme) in the period from 1 April 2017 to 31 December 2022. Audit noted that:

- (a) the staff vacancy rates as at the end of each financial year in the period from 2017-18 to 2021-22 ranged from 6.6% in 2021 to 15.2% in 2018, averaging 10.9%; and
- (b) there was a significant increase in staff vacancy rate from 6.6% as at 31 March 2021 to 12.2% as at 31 March 2022 and 22.4% as at 31 December 2022.

4.30 In response to Audit's enquiry, CreateHK informed Audit in February 2023 that:

- (a) HKDC has set up a Human Resources Review Task Force in November 2022 for conducting a holistic review on HKDC's human resources issues and practices. The task force comprised representatives from CreateHK and HKDC's Board, and an external human resources professional; and
 - (b) the Human Resources Review Task Force will examine, among others, the reasons behind the high staff turnover and vacancy rates, and provide advice and recommendations for HKDC's follow-up as appropriate.
- 4.31 Audit considers that HKDC needs to:
- (a) closely monitor the work of the Human Resources Review Task Force, and ensure that the review on HKDC's human resources issues and practices is completed in a timely manner; and
 - (b) in the light of the results of the human resources review, take measures to address the issues of high staff turnover rates and high staff vacancy rates.

Audit recommendations

- 4.32 **Audit has *recommended* that the Executive Director, HKDC should:**
- (a) **closely monitor the work of the Human Resources Review Task Force, and ensure that the review on HKDC's human resources issues and practices is completed in a timely manner; and**
 - (b) **in the light of the results of the human resources review, take measures to address the issues of high staff turnover rates and high staff vacancy rates.**

Response from the Hong Kong Design Centre

- 4.33 The Executive Director, HKDC agrees with the audit recommendations. He has said that the high staff turnover rates and the recent significant increase in staff vacancy rate have been discussed in various Finance and Administration Committee

meetings. HKDC will further work with the recently established dedicated Human Resources Review Task Force to ascertain the reasons behind and take measures to address the issues.

Hong Kong Design Centre's website

Need to ensure contents in HKDC's website are up-to-date

4.34 As part of the Government's community initiatives to enhance the effectiveness in information dissemination through the Internet both for the public and private sectors by way of Government leadership, the Office of the Government Chief Information Officer (OGCIO) has published guidelines on accessibility requirements and best practices for the design of government web pages (Note 18). According to OGCIO's guidelines:

- (a) it is the responsibility of Bureaux/Departments to ensure that information uploaded onto the Internet is up-to-date;
- (b) external links should be checked regularly to ensure that they still work; and
- (c) a work schedule, containing a comprehensive list of updating frequencies thus determined, should be compiled for follow-up by all staff involved in the updating of the websites.

4.35 HKDC's website provides the public with information about HKDC's programmes, news and publications in the design industry, and various resources for the design professionals. In November 2022, Audit examined the contents on HKDC's website and noted that 98 (25%) of the 387 external links in the "news and publications" section could not be accessed. The 98 links remained non-functional in January 2023. The links were related to news and publications in the period from June 2013 to October 2021.

Note 18: *OGCIO's guidelines on accessibility requirements and best practices include Guidelines on Dissemination of Information through Government Websites, Technical Notes on Website Development and Maintenance, and Common Look and Feel Guidelines and Design Specifications.*

4.36 Although HKDC's website is not a government website, there are merits for HKDC to consider adopting OGCIO's guidelines and best practices for the design of government web pages to enhance the effectiveness in information dissemination by its website. Audit considers that HKDC needs to review the contents of its website regularly and take measures to ensure that the contents are up-to-date.

Audit recommendation

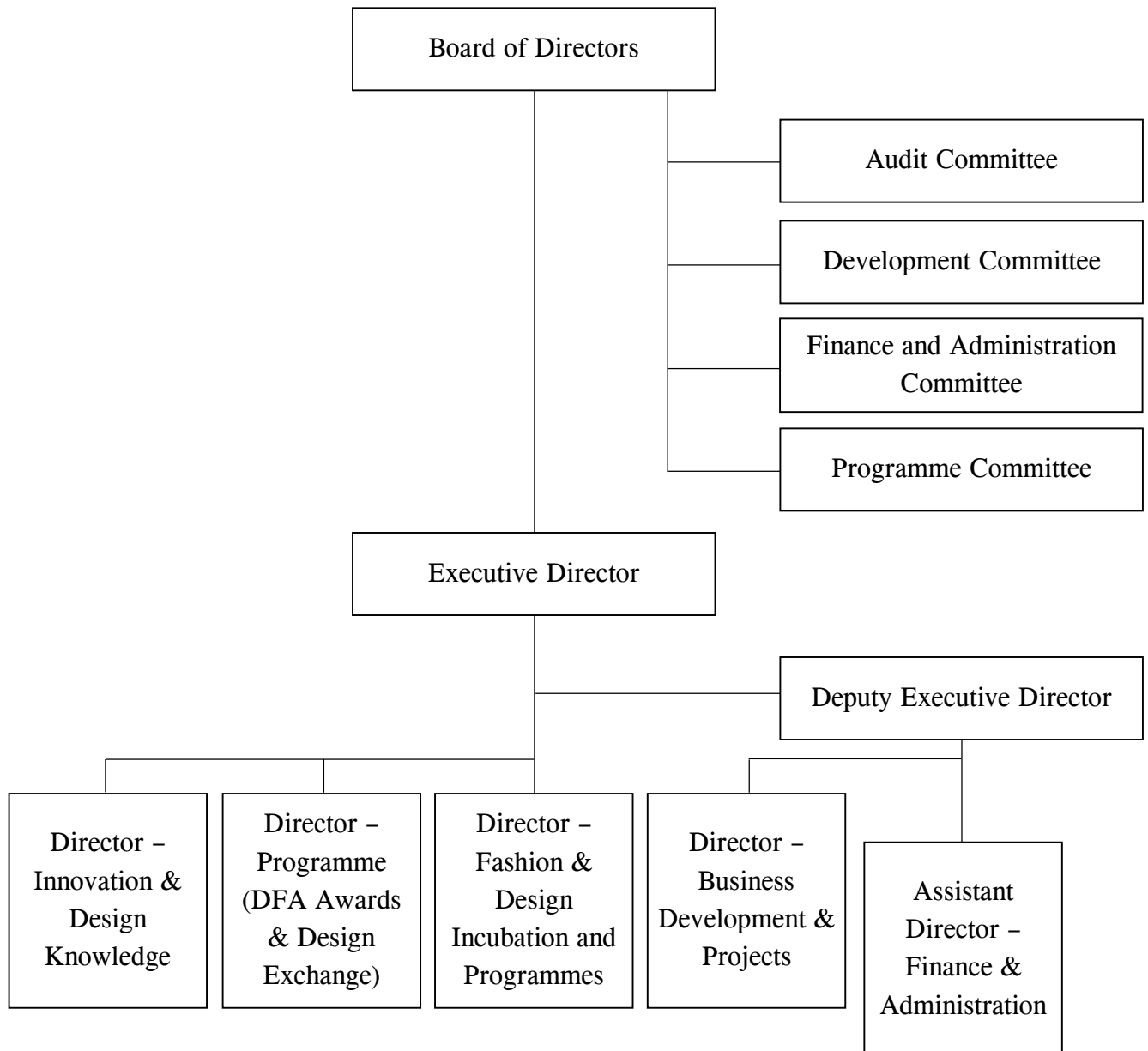
4.37 **Audit has *recommended* that the Executive Director, HKDC should review the contents of HKDC's website regularly and take measures to ensure that the contents are up-to-date.**

Response from the Hong Kong Design Centre

4.38 The Executive Director, HKDC agrees with the audit recommendation. He has said that:

- (a) HKDC will review the contents of its website regularly and keep all the contents up-to-date; and
- (b) all the invalid links will be removed or updated accordingly.

**Hong Kong Design Centre:
Organisation chart (extract)
(31 December 2022)**



Source: Audit analysis of HKDC records

Acronyms and abbreviations

Audit	Audit Commission
BODW	Business of Design Week
CreateHK	Create Hong Kong
CSI	CreateSmart Initiative
CSTB	Culture, Sports and Tourism Bureau
DIP	Design Incubation Programme
FIP	Fashion Incubation Programme
HKDC	Hong Kong Design Centre
I/E	Income-to-Expenditure
OGCIO	Office of the Government Chief Information Officer
PSCCI	Permanent Secretary for Commerce and Economic Development (Communications and Creative Industries)
PSCST	Permanent Secretary for Culture, Sports and Tourism