

(Unclassified version with commercially sensitive or confidential information and Members' names removed)

P.C. 23/2014 (Revised)

**Revised Minutes of the 126th Meeting of the Hong Kong Productivity Council
held at 2:30p.m. on Wednesday, 30 July 2014 in the Board Room
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present: Chairman – Mr. Clement Chen Cheng-jen, SBS, JP

Members – Mrs. Helen Chan, JP
Ir Daniel Cheng Man-chung, MH, JP
Miss Susie Ho, JP
Mr. Jimmy Kwok Chun-wah, BBS, MH, JP
Miss Lam Kam-yi
Dr. Delman Lee
Mr. Leung Kwong-chuen
Mr. Leung Yam-shing
Mr. Kenneth Mak, JP
Prof. Helen Meng Mei-ling
Mr. Byron Ng, JP
Dr. David Ng Tai-chiu
Dr. Dennis Ng Wang-pun, BBS, MH
Mr. Victor Ng, MH
Mrs. Katherine Ngan Ng Yu-ying, JP
Dr. Elizabeth Shing Shiu-ching, BBS, JP
Mr. Sin Kai-ming, MH
Ms. Marilyn Tang Yin-lee
Mr. Johann Wong, JP (representing Miss Janet Wong, JP)
Mr. Patrick Wong Chi-kwong
Dr. Jack Yeung Chung-kit

Absent with Apologies: Mr. Albert Au Siu-cheung, BBS

In Attendance from the Innovation and Technology Commission:

Mr. Frank Tsang

In Attendance from HKPC:

Mrs. Agnes Mak Tang Pik-ye, MH, JP	Executive Director
Mr. Tony Lam	Director, Corporate Services
Mr. Gordon Lo	Director, Business Management
Mr. Jonathan Ho	General Manager, Corporate Communications
Dr. Lawrence Cheung	General Manager, Automotive & Electronics
Mr. Edmond Che	General Manager, Finance and Procurement (Items II & IV only)

Ms. Lilian Ho	General Manager, Human Resources & Administration (Items V & VI only)
Mr. Stanley Chu	Head, Internal Audit & Risk Management (Item VIII only)
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Gillian Luk	Senior Manager, Council Secretariat

Confirmation of Minutes (P.C. 9/2014 Revised)

The Revised Minutes of the 125th Council Meeting held on 26 March 2014 had been circulated to Members and there were no further requests for amendments. The Revised Minutes were taken as read, confirmed and signed by the Chairman.

I. Matters Arising

(A) Appointment of Director, Business Management

1. said that the Council approved by circulation of paper on 5 May 2014 the appointment of Mr. Gordon Lo, previously General Manager, IT & Business Management, as Director, Business Management through open recruitment. The appointment had taken effect on 12 May 2014.

II. Revised Programme and Estimates of HKPC for 2014/15 (P.C. 11/2014)

3. Invited by the Chairman, said that the proposal to revise the 2014/15 Programme and Estimates had taken account of the following considerations:

- (a) at the last meeting of the Finance Committee held on 18 March 2014, the Management agreed to review the long standing accounting practice on capital expenditure with HKPC's external auditor, PricewaterhouseCoopers (PwC), to see if it should be changed and whether there would be any subsequent financial impact on HKPC's accounts;
- (b) at the same meeting, Members noted that a professional consultant was engaged to conduct an extensive survey on the HKPC Building and had advised that the financial requirement for all the required building maintenance work to be implemented over a 10-year period would be around \$110.55M. The Management was requested to consider how to prioritize the major building maintenance work items and proper allocation of resources in the coming Programme and Estimates of HKPC;

- (c) the finalized 2013/14 financial results afforded the opportunity for the Management to examine whether the various 2014/15 financial estimates, which had been approved by the Council in November 2013, had indeed been set at realistic levels and whether any of them should be reviewed and revised; and
- (d) the healthy financial surplus in 2013/14 had enabled the Management to advance the procurement of the high precision 5-axis vertical machine in 2013/14, thus obviating the need to utilize \$5M from HKPC's reserve in 2014/15 as approved by the Council in November 2013.

4. On the existing long standing accounting practice on capital expenditure, [redacted] said that PwC had conducted a review during May to June 2014 and confirmed that the practice was still acceptable under current Accounting Standards. But given that the annual subvention to HKPC was a block grant without differentiation into revenue subvention and capital subvention, there was therefore no requirement to match capital subvention with committed cost of fixed asset. In order to better reflect HKPC's current operation, PwC advised the Management to apply current market practice to record capital expenditure based on delivery of fixed asset and charge related depreciation in the Income and Expenditure Account. [redacted] proposed to implement this change with effect from 2014/15. Arising from this change, the capital expenditure for 2014/15 would be reduced from \$20.2M (based on committed cost of fixed asset) to \$3.3M (based on delivery of fixed asset) in accounting terms and therefore the 2014/15 Programme and Estimates ("P&E") should be revised to reflect this change. This would not, however, affect the actual amount to be disbursed for procuring the planned capital equipment which would remain the same at \$20M.

5. With regard to building maintenance, [redacted] said that [redacted] proposed to provide \$25.4M in 2014/15 for overall building maintenance which also included the priority work items which [redacted] had identified from the consultant's findings and which had not been provided for in the original estimates for 2014/15. At the same time, following on a review of the 2014/15 estimates, the Management considered that the aim to achieve a ratio of project expenses to external income at 37% was not credible at all given that such expenses were still required by quite a lot of the technology-oriented projects. Meanwhile, the original target for value-added was overly stretched and might risk being too aggressive as it was 13% over that achieved in 2013/14 which already represented an accumulated increase of about 15% in the previous two years. The opportunity had also been taken to fine tune some recurrent expenditure items, for example, to reduce the estimate for staff emoluments (by around 1%).

6. [redacted] said that under the revised 2014/15 estimates (summarized in paragraph 5 of the paper), the original estimate of external income at \$384M

would be maintained but total operating expenditure would be reduced by 1.4% from \$419.59M to \$413.92M. While value-added would come down to \$232.21M from the original estimate, it was still higher than the actual value-added for 2013/14 by close to 8%. The revised budget was forecast to produce a budget surplus of \$6.68M after expenditure for the ERP system maintenance, compared to \$3M in the original estimates. The revised 2014/15 Programme and Estimates had been endorsed by the Finance Committee at its meeting held on 22 July 2014. In endorsing the revised estimates, the Finance Committee also supported the adoption of the current market practice to record capital expenditure based on delivery of fixed asset and charge related depreciation in the Income and Expenditure Account.

7. said that the current market practice on accounting capital expenditure would better reflect actual operation and it would also enable the Management to closely monitor the income and expenditure position of the different divisions. Supplementing, said that were basically dealing with a historical issue and the adoption of the current market practice would actually formalize what had already been happening since the signing of the Memorandum of Administrative Arrangements (MAA) with the Government in 2003 which stated that recurrent subvention to HKPC was to be granted in the form of a cash-limited annual block grant which HKPC could deploy to meet its staffing, capital, operating and other expenses.

8. Members approved the revised Programme and Estimates for 2014/15 at paragraph 5 of the paper which would be submitted to the Innovation and Technology Commission (ITC) for approval by the Government. Members also agreed that given the procurement of the 5-axis vertical machine (\$5M) in 2013/14, it was no longer necessary to make such provision in the 2014/15 estimates.

III. Three-year Strategic Plan of HKPC for 2015/16 - 2017/18 (P.C. 12/2014)

9. introduced the paper and said that the existing strategic plan of HKPC was anchored on a four-pronged strategy focusing on scaling up platforms, creating value for SMEs, sharpening core competencies and developing strategic partnership. The Management had revisited the existing strategic plan and considered that the four-pronged strategy was still valid.

then went on to brief Members on the major initiatives under the strategic plan (paragraph 5 of the paper) which would be taken forward subject to the availability of resources. The Management would consider the necessity of revisiting the strategic plan during the year if there were any fundamental changes in the relevant macro environment. The 2015/16 - 2017/18 Strategic Plan of HKPC was endorsed by the Finance Committee at its 51st meeting held on 22 July 2014 and the various initiatives under the strategic plan had been

considered and supported by the Business Development Committee at its 54th meeting held on 15 July 2014.

10. As regards the exit plan, _____ said that at this point, no services were planned for exit in the next three years. However, the Management would aim to withdraw from providing secretariat service to industry/trade associations in 2014/15. The planned withdrawal was necessary taking account of the impact of the amended Companies Ordinance earlier this year which imposed more stringent requirements, and hence liabilities, on entities performing company secretariat functions. Withdrawal was also advisable given the availability of professional company secretary service providers in the market. Instead, _____ would provide technical and industry support focusing on HKPC's core competence, and licensee service which would meet the operation and business networking needs of the associations. But HKPC would steer clear of secretarial services and logistic and administrative support to non-business related functions (e.g. social/recreational events) of the associations.

11. In reply to _____, _____ said that individual meetings with the associations had been conducted to explain HKPC's position. The associations seemed to accept the difficulties of HKPC in continuing to provide secretariat service to them. Meanwhile, it was also made clear to the associations that withdrawal from secretariat services would have no impact on HKPC's support to them. In this connection, the technical/industry support and licensee services were welcomed by the associations. As a further enhancement to HKPC's support under this revised service menu, subject divisions would be deployed to liaise with the specific associations to understand their needs and provide the relevant technical and industry support services they required.

12. Members approved HKPC's Three-year Strategic Plan for 2015/16 - 2017/18 at Annex A of the paper.

IV. Annual Accounts for the Year 2013/14 (P.C. 13/2014)

13. Invited by the Chairman to report, _____ said that external income for the year was \$374.5M which was higher than the budget by \$6.2M or 1.7%. The income surplus came mainly from government funded projects (\$26M) which was offset by the shortfall in consultancy projects (\$10.9M), in-class training (\$6.6M) and study missions (\$2.6M). While the value-added was short by \$15.4M against the budget, it was still higher than the value-added for 2012/13 by more than 7%. On the expenditure side, total expenditure came to \$388.9M which was \$20M or 4.9% less than the budget of \$408.9M, mainly on account of lower staff emoluments incurred. Total surplus for the year before depreciation and maintenance for the ERP system was \$13.7M after a provision of \$8.452M for variable pay. The surplus would have

been higher if the procurement of the high precision 5-axis vertical machine (\$5M) had not been advanced to 2013/14. The machine was originally approved by the Council to be procured by utilizing the reserve in 2014/15 but the Management considered that the resources in 2013/14 would be more than able to cater for the machine cost and hence obviate the need to utilize the reserve.

14. Members approved the Annual Accounts of HKPC for the year ended 31 March 2014, which also incorporated the financial result of the APAS Division which operation was separately funded by the government. In approving the accounts, Members noted that the annual accounts had been considered by the Audit Committee at its 30th meeting held on 27 June 2014 with no major adverse comments and endorsed by the Finance Committee at its 51st meeting held on 22 July 2014.

V. 2014/15 Pay Review (P.C. 14/2014)

15. Invited by the Chairman to report, _____ said that for staff that had opted for the Performance Pay System (PPS), their weighted average rate of pay adjustment was calculated to reflect the market trend by reference to five major pay trend surveys available in the market, as well as the pay trend adjustment of the Civil Service. Pay review for staff who were not under the PPS (non-PPS staff) would continue to follow the pay trend adjustment of the Civil Service only. The proposed 2014/15 upward pay adjustments for PPS staff were 4.85%, 4.86%, 4.43% and 4.4% for the top, senior, middle and general level staff respectively, whereas the adjustments for non-PPS staff were 5.96% for the top and senior level staff and 4.71% for the middle and general level staff. Based on the current salary outlay for all staff, the cost arising from the proposed pay adjustment for staff under the PPS and non-PPS was estimated to be \$9.5M and \$2.5M per annum respectively, while another \$5.1M was estimated for merit increment. The additional costs were provided for in the 2014/15 budget.

16. Members considered and approved the proposed 2014/15 pay adjustments for PPS and non-PPS staff at the rates mentioned in paragraph 15 above. Members also agreed that, in line with established practice, the proposed pay adjustments would take retrospective effect from 1 April 2014, subject to the Civil Service Pay Adjustment as proposed by the Government being approved by the Finance Committee of the Legislative Council and the Government's subsequent approval of HKPC's proposed pay adjustments under section 6 of the HKPC Ordinance. In this connection, Members also noted that in view of the discussion of the Civil Service Pay Adjustment this year at the Finance Committee had been postponed to the 2014/15 legislative session which would resume in October 2014, HKPC would not be able to follow the usual timeframe in the past to implement the new salaries incorporating the pay trend and provide back pay to staff.

VII. Annual Review of HKPC Activities in 2013/14 (P.C. 16/2014)

21. introduced the paper and briefed Members on HKPC's performance in the 30 key performance indicators (KPIs) in 2013/14 which was summarized in paragraphs 4 - 6 of the paper. Overall, the KPIs were largely met with some of them being exceeded.

22. briefed the meeting that in 2002, a consultancy study was conducted by SQW on the role and operation of HKPC. One of SQW's recommendations was that HKPC's performance should be measured in the areas of service delivery, operating efficiency, financial results and effectiveness. The set of KPIs used under these four measurement areas had been reviewed and evolved over the years from 10 to 30. The current set of 30 KPIs had been in use since 2011/12 and over time had come to some observations on the relevance and effectiveness of the KPIs, summarized into four areas:

- (i) some KPIs were just breakdown of financial figures without offering meaningful benchmark of performance, "income per consultancy project in progress" was an example;
- (ii) some KPIs were process oriented without focusing on outcomes, for example, "industry consultation organized", "number of and funding approved for CRD projects";
- (iii) some were offsetting each other, for example, increased involvement in consultancy projects would necessarily be balanced off by reduced resources for other areas, say government projects; and
- (iv) important business development corporate goals had not been included.

23. said that the Management was reviewing the present KPIs with regard to the above considerations and would discuss with the ITC on how the KPIs could be revised, especially on how they should be employed to effectively gauge HKPC's achievements in major outcome-based business development corporate goals in the three-year strategic plan adopted by the Council every year. As a basis for the review, the Management was inclined to an initial approach that would:

- (i) retain the KPIs which were currently required to be reported in the Controlling Officer's Report of ITC every year;
- (ii) remove financial KPIs which were just breakdown of financial figures which could still keep track of in HKPC's ERP system; and

(iii) add new KPIs under “Effectiveness” to reflect the outcome-based business development corporate goals in the three-year strategic plan adopted by Council every year.

24. said that, from the user’s angle, HKPC’s performance should best be measured by significant changes and enhancement created for industry and SMEs in particular, such as the transfer and adoption of new and advanced technologies, the customization of specific production systems etc. In response, said that there were indeed important HKPC initiatives for industry that were simply not captured and reflected by the existing KPIs in measuring HKPC’s performance, for example, SME One which was very welcomed by SMEs, the new initiative on setting up a conformal cooling technology centre, and the various initiatives under the outcome-based corporate goal as outlined in the three-year strategic plan such as best practice models for specific business sectors and the partnership with European R&D institutes to transfer new technologies (e.g. demonstration of the KUKA robotic arm) to Hong Kong.

25. supported the Management’s plan to review the existing set of KPIs for more meaningful measurement of HKPC’s performance, focusing on its support to industry. expressed support in principle the Management’s initiative for reviewing the KPIs and said that there were historical reasons behind their adoption which had to be taken into account in the review. It was also important that KPIs should be able to reflect the core work of HKPC and its public missions, although some of these might be difficult to quantify in the form of KPIs. The ITC would discuss and work with the Management on how the existing set of KPIs could be reviewed and enhanced.

26. Members approved the 2013/14 annual review of HKPC activities as summarized in paragraphs 4 - 6 of the paper. Members also supported the Management’s proposal to review the current set of KPIs in consultation with the ITC and report to the Council in due course.

VIII.Reappointment of Auditor (P.C. 17/2014)

27. Invited by the Chairman to report, said that at the 123rd Council meeting held on 30 July 2013, the Council approved the appointment of PricewaterhouseCoopers (PwC) as the group auditor for HKPC and its subsidiaries for the three financial years from 1 April 2013 to 31 March 2016. According to the appointment letter to PwC on 16 August 2013, reappointment for the two financial years from 1 April 2014 to 31 March 2016 would be subject to satisfactory performance of PwC in the preceding year. then briefed Members on the performance evaluation of PwC (paragraphs 4 - 8 of the paper) and the proposal for its reappointment as the group auditor for HKPC and

its subsidiaries for the financial year from 1 April 2014 to 31 March 2015. The reappointment proposal had been endorsed by the Audit Committee at its 31st meeting held on 17 July 2014.

28. Members approved the reappointment of PwC as the group auditor for HKPC and its subsidiaries for the financial year from 1 April 2014 to 31 March 2015 at a total group audit and tax services fee of _____ as previously approved by the Council at its 123rd meeting.

IX. Report on Industry Study on Hong Kong's Testing and Certification Industry (P.C. 18/2014)

29. Invited by the Chairman, _____ introduced the paper and said that the aim of the study was to identify new development opportunities for the testing and certification (T&C) industry, and to explore initiatives for empowering its sustainable growth. The study identified three mainstream development trends that might generate future T&C opportunities:

- (a) application of smart technologies especially in the areas of wireless charging, near field communication (NFC) and radio-frequency identification (RFID) for which T&C services would be in demand in supporting the development of applications of these emerging smart technologies. To support the further development of the local T&C industry to meet service demand, the study recommended that the relevant international regulatory approval testing certification requirements should be identified and that business networking between local T&C service providers, manufacturers and major retailers of smart technologies should be enhanced in order to explore the establishment of new business partnerships;
- (b) product sustainability especially in the areas of product carbon footprint labelling and certification of biodegradable materials which were fast becoming the new product labelling trend. To meet the demand for T&C services associated with product sustainability, the study recommended practical training for industry practitioners and the promotion of wider application of T&C services in the commercial sectors; and
- (c) green transport especially in the areas of electric vehicle (EV) batteries, EV charging equipment, fuel economy and energy performance. A separate study was recommended on the existing international T&C requirements related to green transport to identify focus areas for the local T&C industry and the potential for localization of such requirements.

Separately, to empower the sustainable growth of the T&C industry, the study recommended that T&C business development should be strengthened by

amalgamating the joint expertise of the testing facilities of local institutions to provide a “one-stop shop” solution for industries. The study also recommended the establishment of a centralized knowledge transfer platform to help enhance the professional development of T&C practitioners on an on-going basis.

30. said that the study was conducted on HKPC’s own resources. This was an internal study by HKPC and there was no plan at the moment for its public release and promotion. HKPC would disseminate the study findings through various channels to the T&C stakeholders and explore opportunities to work with them towards realizing some of the recommended initiatives. The draft study report had also been forwarded to the Secretariat of the Hong Kong Council for Testing and Certification (HKCTC) for its views and consideration of any action that it might deem necessary.

31. said that a systematic work plan should be formulated to follow up on the recommendations of the study. In response, said that the HKCTC Secretariat had already provided its comments on the draft report and would continue to keep in touch with the HKPC team. After HKPC fine tuned the study report and passed the final version to HKCTC, then it could discuss with HKCTC on ways to take forward the recommendations.

32. In reply to , said that food testing, while not separately addressed in the report, would fall under the recommendations for product safety and sustainability.

33. Members noted and supported the report findings and recommendations. said that the Secretary would forward the executive summary of the study to Members for their information when the study report was finalized.

X. Progress Report from the Audit Committee (P.C. 19/2014)

34. Members noted the report from the Audit Committee on matters considered at its 30th and 31st meetings held on 27 June 2014 and 17 July 2014 respectively.

XI. Progress Report from the Business Development Committee (P.C. 20/2014)

35. Members noted the report from the Business Development Committee on matters considered at its 54th meeting held on 15 July 2014.

XII. Progress Report from the Finance Committee (P.C. 21/2014)

36. Members noted the report from the Finance Committee on matters considered at its 51st meeting held on 22 July 2014.

XIII. Progress Report from the Staffing Committee (P.C. 22/2014)

37. Members noted the report from the Staffing Committee on matters considered at its 48th meeting held on 8 July 2014.

XIV. Any Other Business

(A) HKIoD Director of the Year Award 2014

38. Members noted that the Management was arranging for the nomination of the HKPC Council for the “Director of the Year Award 2014” (under the category of Collective Board Category) organized by the Hong Kong Institute of Directors (HKIoD). The Hon. Andrew Leung, ex HKPC Council Chairman, would be invited to make the nomination of the HKPC Council.

(B) 50th Anniversary of HKPC

39. Members noted that the Management was recently contemplating ideas to mark the occasion of HKPC’s 50th anniversary in 2017. The celebration events should be solid and practical and be able to reflect and enhance the brand of HKPC, without luxury and extravagance. As the flagship event of the celebration, an exhibition on the theme “50 Years of Hong Kong Industry” was being explored with the Hong Kong History Museum. It would be an exhibition with a clear people’s perspective on Hong Kong’s industry development in the past 50 years with a collection of industry memorabilia and old items from Hong Kong’s “factory days”. In this regard, invitations had been sent to relevant enterprises for the loan and donation of worthwhile historical industry memorabilia for consideration to be displayed. Other celebrating activities being considered included a cocktail reception, media campaign, souvenirs manifesting HKPC’s technologies, comic strip on HKPC’s history and achievements, essay writing competition etc.

40. Members generally supported the idea. They alerted that holding a cocktail party separately from the exhibition might need to be considered, having regard to the resource implication at the time, and agreed that details of the exhibition would certainly need to be deliberated in more detailed terms nearer to the anniversary date. Members thanked Members for their support of the proposed celebrating plan.

(C) Space Science Experiment Design Competition for Hong Kong Secondary School Students (香港中學生太空搭載實驗方案設計比賽)

41. Members noted that HKPC would act as the implementation agent for the Space Science Experiment Design Competition for Hong Kong Secondary School Students with the entry deadline in April 2015. The competition aimed to arouse the interest of Hong Kong secondary school students in science and technology and to foster the innovation and technology culture in Hong Kong. The competition was co-organized by the Home Affairs Bureau and 中國載人航天工程辦公室 and the winning experiments would be performed by astronauts during the mission of 神州第十一號. Solicitation of sponsorship for the competition just started and Members were invited to inform HKPC of potential sponsors.

(D) SME One 2nd Anniversary

42. Members noted that HKPC's one-stop centre for SMEs, SME One, had been set up for two years and a cocktail reception was held on 17 July 2014 at the centre to celebrate the occasion. Apart from serving as a platform to provide comprehensive support in relation to various government funding schemes, market financial proposals and latest technology/management/IT solutions, SME One had been used since March 2014 as the venue to host business luncheons with HKPC's stakeholders. These luncheons were welcomed by participants as an informal venue for exchanges and had enhanced their understanding of HKPC's wide range of expertise and services. For HKPC, the luncheons provided a useful marketing platform for our services. So far luncheons had been held for the recycling and retail sectors, the media and SME One sponsors. Following the luncheons, HKPC had been requested for service proposals, further exchange of views and sponsorship renewal. Luncheons were being planned for CIOs of major corporations, HKPC's major clients, key players of industry sectors, charitable organizations, NGOs and industry associations.

(F) Attendance Record of Council Members

44. Members noted their attendance record in 2014 tabled at the meeting.

XV. Date of Next Meeting

45. It was agreed that the date of the next meeting be scheduled on 26 November 2014 at 2:30pm.

46. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 5:30pm.