

**Revised Minutes of the 121st Meeting of the Hong Kong Productivity Council
held at 9:30a.m. on Friday, 14 December 2012 in the Board Room
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present: Chairman – Mr. Clement Chen Cheng-jen, BBS, JP
Members – Mr. Albert Au Siu-cheung
Dr. Cliff Chan Chok-ki
Ir Daniel Cheng Man-chung, MH, JP
Miss Susie Ho, JP
Mr. Jimmy Kwok Chun-wah, MH, JP
Miss Lam Kam-yi
Mr. Adolph Leung, JP (representing Mrs. Helen Chan, JP)

Mr. Leung Yam-shing
Mr. Brian Lo, JP (representing Mr. Kenneth Mak, JP)

Mr. Andrew Mak Yip-shing, JP
Prof. Helen Meng Mei-ling
Mr. Byron Ng, JP
Dr. David Ng Tai-chiu
Dr. Dennis Ng Wang-pun, 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
Miss Janet Wong, JP
Mr. Jack Yeung Chung-kit

Absent with Apologies: Dr. Delman Lee

In Attendance from ITC: Mr. Johann Wong
Mr. Frank Tsang

In Attendance from HKPC:

Mrs. Agnes Mak Tang Pik-ye, MH, JP	Executive Director
Mr. Leo Lam	Director, Business Innovation
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Jonathan Ho	General Manager, Corporate Communications

Mr. Dennis Wu

General Manager, Corporate HR and
Administration

Dr. Samuel Leung

General Manager, Finance and Procurement

Mr. Alfonso Tam

Chief Manager, Council Secretariat

Ms. Miranda Yeap

Senior Manager, Council Secretariat

Ms. Helen Chan

Chief Internal Auditor

Welcome to New Members

The Chairman welcomed Miss Susie Ho, Permanent Secretary for Commerce and Economic Development (Communications and Technology) and Mr. Brian Lo, Deputy Director-General of Trade and Industry who attended the meeting for the first time.

Confirmation of Minutes (P.C. 24/2012 Revised)

The Revised Minutes of the 120th Council meeting held on 31 July 2012 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

(B) Authorized Signature for Gaungzhou Representative Office (GZO)

2. At the 117th Council meeting held on 26 July 2011, Members supported the decision of the Management and the Business Development Committee to dissolve GZO. our retained advisor on Mainland business tax matters, was handling the dissolution of GZO. However, in submitting the necessary documents for the closure of GZO, the relevant Mainland authority had requested that a formal resolution on the Council's confirmation of the appointment of the incumbent ED of HKPC as the authorized signatory for GZO should be provided. Via circulation of paper P.C. 26/2012 on 21 November 2012, Members agreed to and confirmed:

- (i) the appointment of the incumbent ED of HKPC (Mrs. Agnes Mak 麥鄧碧儀), as the authorized signatory for the Guangzhou Representative Office of HKPC; and

- (ii) that the incumbent ED of HKPC (Mrs. Agnes Mak 麥鄧碧儀), was duly authorized to sign all documents necessary for the dissolution of Guangzhou Representative Office of HKPC, including the notification to the 廣州市工商行政管理局.

II. Programme and Estimates of HKPC for 2013/14 and Three-Year Forecast 2013/14 - 2015/16 of HKPC Income and Expenditure (P.C. 27/2012)

3. Invited by the Chairman to report, introduced the paper and said that the Three-year Forecast for 2013/14-2015/16, comprising the detailed Programme and Estimates for 2013/14 and Forecast of Income and Expenditure for 2014/15-2015/16 for HKPC, was premised upon the Three-Year Strategic Plan for 2013/14-2015/16 approved by the Council at its 120th meeting held on 31 July 2012. The strategic plan was anchored on a four-pronged strategy and staff would be guided by HKPC's Vision, Mission and Values (VMV) to provide support relevant to the ongoing and emerging needs of industries as well as strengthening HKPC's four core competencies along the way. For planning purpose, the paper also contained the forecast for the WFOEs and the APAS division (previously the APAS R&D Centre) which did not form part of HKPC's income and expenditure for the purpose of subvention requirement.

4. Continuing, said that the Programme and Estimates had been prepared with close regard to industry needs, especially those of the SMEs, as well as the macro external factors, i.e. the threats as well as opportunities for the business of HKPC. In this connection, HKPC had, in accordance with the latest three-year strategic plan, set up the new CERT Centre, launched the cross sector 創+造 配對計劃, established the Automation Services Division to closely collaborate with the APAS R&D Centre which had merged with HKPC on 1 November 2012, continued to develop business opportunities in Hong Kong for industry processing rare earth materials, proactively pursued the commercialization of technologies and continued to provide integrated upgrading and transformation support through the PRD TURN programme. In addition, HKPC would continue its focus on the following major initiatives for cross industry support, namely, BUD Programme, SME One, CarbonSmart, Watch Movement Components and Subassemblies Testing Laboratory, Intelligent Manufacturing System and Expanded Electromagnetic Compatibility (EMC) Testing Services. Separately, in the light of the increasing concern on product/service reliability and credibility which would provide a new window of opportunities for Hong Kong industrialists to ride on Hong Kong's niche as a safe harbour for reputable products and services, we would apply for government funds to conduct a study on this agenda and identify the sectors that would potentially benefit the most by developing and expanding this already existent niche of Hong Kong products and services. Council would be consulted as appropriate.

5. In reply to _____, _____ said that with subvention being centralized under the corporate portfolio and not distributed to divisions upfront, divisions' business and financial forecasts were essentially conducted on a ground zero basis to clearly reflect financial performance. Coupled with the new performance yardstick which measured the performance of the consulting staff in terms of the valued added they created, the budget forecast exercise was now a more detailed and educated process having close regard to accuracy. Therefore, it was unlikely that divisions would forecast beyond what would reasonably be achievable and create undue pressure on themselves.

6. In response to _____ enquiry on the relatively low utilization rate of the new EMC Chamber, _____ explained that the utilization rate of the new EMC Chamber was around 40%. But it should be noted that the new EMC Chamber was an advanced facility ahead of the existing market with the capability to provide Electromagnetic frequency measurements up to 18GHz.

_____ envisaged that service demand should be building up given the EU requirements. Meanwhile, while promotion of the new EMC Chamber was conducted, HKPC was also actively pursuing collaboration with the Science Park for an overall promotion of the testing facilities of both parties. As regards the old EMC Chamber, _____ said that near capacity utilization was maintained.

7. In response to _____ enquiry on HKPC support to Hong Kong companies that had moved to other low cost production centres in the region, _____ said that the overall guiding principle was that extra-territorial services must be provided on a full cost recovery basis in accordance with the HKPC Ordinance. HKPC was further restricted by Council's decision that no more than 10% of HKPC's resources should be allocated to provide services outside Hong Kong. _____ said that the trend to relocate labour intensive activities from the Mainland to other low cost production centres in the region was gathering momentum and HKPC must act swiftly to respond to the new needs of these Hong Kong companies. In agreement, _____ said that the 10% rule should be considered to be relaxed as part and parcel of an overall strategy to meet the needs of these companies as well as the development direction of Hong Kong industry as a whole.

8. _____ said that the 10% house rule was perhaps losing relevance and considered that the Management should re-examine the issue with ITC and revert to Council with a proposal, as necessary. In a related context,

_____ said that HKSARG's Economic and Trade Offices (ETO) would provide a useful linkage to Hong Kong companies operating in the region outside the Mainland. However, the only ETO in the region was in Singapore which was geographically away from the low cost production centres favoured by Hong Kong companies, such as Myanma. In response, _____ said that _____ was

not aware of any plan to open new ETOs in the region at the moment but the possibility should not be ruled out if there was a clear need for them.

undertook to reflect the Council's view to the Government.

9. then briefed Members on the financial forecasts and the KPM targets for 2013/14. said that the Finance Committee noted that the staff utilization rate at 67% did not reflect the overall efforts of HKPC staff who also conducted public mission activities which were not income generating. In this connection, the Finance Committee had asked the Management to, as a standing practice, capture staff hours charged to billable projects as well as to non income generating public mission activities on the new ERP system to provide a full picture on staff time utilization. In response, said that collection of such data had already started which would also cover the staff hours of Principal Consultants and above spend on, but currently not allowed to be charged to, government funded projects.

10. said that information on staff time spent on delivering public mission activities would be useful, apart from reflecting the true efforts of staff, in providing a basis for follow up liaison with the Government on the possibility of reviewing the level of HKPC's subvention which had been maintained at a stable level for years. said that it was time the Government reviewed the level of HKPC's subvention, if only just to make adjustment to take account of the accumulated inflationary impact over the years.

said that observation was reasonable especially when the Government was not providing all the additional funding required for the annual salary adjustment for the staff under the Performance Pay System. said that review of HKPC's subvention issue should be comprehensive having regard to the underlying principle and nature of such subvention rather than just singling out the inflation issue for a quick fix. undertook to look at the issue with the relevant Government bureaux.

11. Continuing with report, briefed Members on the forecast of the WFOEs and the APAS Division which did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement. With regard to the WFOEs, said that following on the strategic review of WFOEs' business operation, consolidation, localization and repositioning were the keys to moving the WFOEs forward, hence the conservative budget forecast. It was anticipated that the situation would change as the WFOEs would be progressively geared towards self-sufficiency. As regards the APAS Division, said that it was essentially a mega project entrusted to HKPC as it would be supported with separate Government funding and subject to separate accounting as well. said that the merger was to optimize synergy between HKPC and APAS and to rationalize overlaps in functions and to achieve higher cost-effectiveness. It was not a cost saving exercise and separate accounting was necessary as the Government

would continue to be required to report the performance of the APAS Division to the Legislative Council. The underlying principle had not changed and that was to say, despite the merger, the APAS Division would still essentially be an ITF R&D Centre. In response to concern on the approving procedures and formalities for APAS's annual business plan within HKPC's advisory structure, said that ITC would discuss with the Management on a practical arrangement as appropriate.

12. After discussion, Members approved:

- (a) HKPC's Three-Year Forecast for 2013/14-2015/16 as endorsed by the Finance Committee at its 46th meeting held on 20 November 2012;
- (b) the detailed Programme and Estimates of HKPC for 2013/14 as endorsed by the Finance Committee at its 46th meeting held on 20 November 2012, which included the staff establishment of 695 endorsed by the Staffing Committee at its 43rd meeting held on 6 November 2012; and
- (c) the proposed targets for the Key Performance Indicators (KPIs) in 2013/14 at Appendix 3 of the paper for approval by ITC.

13. Members noted the 3-Year Forecast of WFOEs for 2013/14-2015/16, which did not form part of HKPC's income and expenditure forecast for the purpose of subvention requirement. Separately, Members also noted the government funding approved by the Legislative Council on 11 May 2012 to extend APAS's operation to 31 March 2017 as a division of HKPC subject to separate funding support and accounting.

III. Review of Pay Trend Survey Reports for Performance Pay System (PPS) (P.C. 28/2012)

14. Invited by the Chairman to report, introduced the paper and said that since the introduction of the Performance Pay System (PPS) in 2008, pay trend adjustments for those staff on PPS had been based on the weighted average results of four market surveys and the pay trend adjustment for civil servants. The Council had suggested that the Management should consider reviewing the mix of market surveys, say every five years, to ensure representativeness of the market surveys used. In this connection, the Management had recently conducted a review and we considered that the methodology and pay trend findings of the 4 survey reports currently used were still representative of the general market situation and relevant to the business and job nature of HKPC. The opportunity had also been taken to evaluate 3 other commonly used market survey reports by , and ,

according to four criteria, namely:

- (a) timing of report that was close to our pay adjustment cycle;
- (b) relevance of data collection methodology including the job ranks and number of employees surveyed;
- (c) stability of the report issuance; and
- (d) price of the survey report.

The Management considered that _____ survey report was most relevant to our needs, while the other two survey reports by _____ and _____ did not meet our criteria and were therefore not selected. Details of the study and findings were contained in Annex I to IV of the paper.

15. After discussion, Members approved the following recommendations for the purpose of pay trend adjustment for staff under the PPS which were also supported by the Joint Consultative Committee (JCC) at its meeting held on 16 October 2012 and endorsed by the Staffing Committee at its 43rd meeting held on 6 November 2012:

- (i) to retain the four currently used pay trend survey reports by _____, _____ and _____;
- (ii) to add the pay trend report by _____ to HKPC's market pay trend survey portfolio; and
- (iii) to continue to factor in the annual pay trend adjustments for civil servants.

IV. Review of Sick Leave Policy (P.C. 29/2012)

16. Invited by the Chairman to report, _____ introduced the paper and briefed Members on the background of HKPC's sick leave benefits and the proposed rationalization which aimed to bring the sick leave benefits of HKPC employees more in line with the latest market practices and plug possible loopholes. The proposed rationalization was three-pronged targeting:

- (i) to define the sick leave entitlement of all new joins (with employment offer made on or after 1 January 2013) on a monthly earned basis as from the date joined based on a preset schedule up to 90 calendar days with full pay and 90 calendar days with four-fifth pay for a rolling 4-year period of service;
- (ii) to administer the sick leave entitlement of all staff on a rolling 4-year period of service for the consumption of earned sick leave such that the paid sick leave that a staff member might take at any time would be the accumulated sick leave entitlement less the number of paid sick leave taken

in the past 4 years immediately preceding the first day of sick leave being applied for; and

- (iii) to prevent abuse by a reasonable administration arrangement for all staff whereby the Management may at its discretion mandate the staff member concerned to produce a medical certificate issued by a registered medical practitioner from a hospital as defined in section 33(6)(a) of the Employment Ordinance (EO), Cap. 57 of Hong Kong Laws, as well as a doctor's report on fitness for work.

The proposed rationalization for the sick leave policy was supported by the JCC meeting held on 16 October 2012 and endorsed by the Staffing Committee at its 43rd meeting held on 6 November 2012. Details of the proposal rationalization were set out in paragraphs 4(a) to 4(c) of the paper.

17. said that the proposed new sick leave entitlement should apply to new joins as well as existing contract staff upon contract renewal, upon their taking up new contract positions through internal recruitment and upon them being awarded permanent employment terms. and agreed with and said that a simple and clear cut arrangement was to apply the proposed new sick leave entitlement wherever a new employment contract was entered into, irrespective of whether the new contract holder was a new join or existing HKPC staff.

22. After discussion, Members approved the proposed rationalization of HKPC's sick leave policy for all new joins as laid out in paragraph 4(a) of the paper and agreed for the Management to seek the approval of ITC for the proposed rationalization to be operative from 1 January 2013 or a subsequent date after ITC's approval was given. Members also noted and supported the administrative arrangements outlined in paragraph 4(b) of the paper for implementation. Separately, Members agreed that the Management should, prior to seeking the approval of the Council and the ITC:

- (i) consult and seek the endorsement of the Staffing Committee on the application of the proposed rationalization to existing contract staff, in addition to new joins; and
- (ii) consult the Labour Department to revise the proposed rationalization at

paragraph 4(c) of the paper and seek the Staffing Committee's endorsement.

V. Reappointment of Auditor (P.C. 30/2012)

23. Invited by the Chairman to report, introduced the paper and said that the Council approved via paper circulation on 28 April 2011 (P.C. 9/2011) the appointment of KPMG as the group auditor initially for one financial year from 1 April 2010 to 31 March 2011 and the reappointment of KPMG for the financial years from 1 April 2011 to 31 March 2013 subject to satisfactory performance and fee negotiation annually. At its 24th meeting held on 16 November 2012, the Audit Committee considered KPMG's performance to be satisfactory and recommended the reappointment of KPMG as HKPC's group auditor for 2012/13 whereby KPMG would continue to provide audit and tax services for HKPC and our Hong Kong subsidiaries (excluding APAS), but would only provide audit services for our Mainland subsidiaries and that HKPC would need to separately appoint local CPA firms to provide the year-end tax audit and tax filing services. This arrangement would result in considerable savings and the total audit fees of KPMG would be lower than the audit for 2011/12 when KPMG was also engaged to provide tax audit and filing services for the Mainland subsidiaries.

24. In response to enquiry, said that it was advisable to appoint a single auditor for HKPC's Hong Kong and Mainland operations as this would provide a useful consistency throughout the audit process.

25. Members approved the reappointment of KPMG as the group auditor for HKPC and its subsidiaries (excluding APAS) for the financial year from 1 April 2012 to 31 March 2013 at the group audit and tax services fee of . Members also agreed that local Mainland CPA firms should be appointed to provide tax audit and filing services for HKPC's Mainland subsidiaries.

VI. Revised Terms of Reference for the Audit Committee (P.C. 31/2012)

26. Invited by the Chairman to report, said that the existing Terms of Reference (TOR) of the Audit Committee (AC) contained a clause which required the AC to review the financial performance of HKPC for the interim period from April to September each year prior to its submission to the Finance Committee and the Council. The same requirement was embedded in the TOR of the Finance Committee (FC) and it was the established practice of the FC to review the latest financial performance every time it convenes a meeting. At

its 24th meeting held on 16 November 2012, the AC agreed that it was not necessary for the AC to review the interim accounts which had not been audited. Furthermore, the review of the interim accounts was already performed by the FC and there would be duplication of effort with limited value added for the AC to perform the same review. However, the AC would continue to review the annual financial statements as audited before its submission to the FC and the Council in accordance with the AC's TOR.

27. Members approved the revised Terms of Reference of the Audit Committee as contained in Annex I of the paper with the deletion of paragraph (6)a)vi with immediate effect.

VII. Progress of Winding Up of Automotive Parts and Accessory Systems R&D Centre (APAS) (P.C. 32/2012)

28. Invited by the Chairman, introduced the paper and briefed Members on the progress of the winding up process which was outlined in paragraph 3 of the paper. said that a new funding agreement was being finalized by ITC with the Department of Justice (DoJ) to replace the previous tripartite agreement signed by ITC, HKPC and APAS. Details like sharing of commercialisation proceeds were being discussed. said that ITC would identify an appropriate arrangement to address HKPC's various concerns without delaying signing of the funding agreement which was now ready to be finalized with DoJ.

29. Members noted the progress of the winding up of APAS.

VIII. Report from the Audit Committee (P.C. 33/2012)

30. Members noted the report from the Audit Committee on the matters considered at its 24th meeting held on 16 November 2012.

IX. Report from the Business Development Committee (P.C. 34/2012)

31. Members noted the report from the Business Development Committee on the matters considered at its 49th meeting held on 13 November 2012.

X. Report from the Finance Committee (P.C. 35/2012)

32. Members noted the report from the Finance Committee on the matters considered at its 46th meeting held on 20 November 2012.

XI. Report from the Staffing Committee (P.C. 36/2012)

33. Members noted the report from the Staffing Committee on the matters considered at its 43rd meeting held on 6 November 2012.

35. Members also noted their attendance record for 2012 which was tabled at the meeting. Members also noted the 2013 Council meeting schedule tabled at the meeting, as follows:

Meeting	Date and Time
122 nd meeting	26 March 2013 (Tuesday) 2:30pm
123 rd meeting	30 July 2013 (Tuesday) 2:30pm
124 th meeting	26 November 2013 (Tuesday) 2:30pm

36. Members noted that the Secretariat would stick to the schedule unless circumstances warranted otherwise. In that event, the meetings would be scheduled as far as possible within a period of one week before or after the original targeted dates to fit Members' schedules.

XIV. Date of Next Meeting

38. The next meeting was tentatively scheduled on 26 March 2013 at 2:30pm.

39. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 12:15pm.