

**Minutes of the 129th Meeting of the Hong Kong Productivity Council
held at 3:30p.m. on Wednesday, 29 July 2015 in the Board Room
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present: Chairman – Mr. Stanley Lau Chin-ho, SBS, MH, JP

Members – Mr. Albert Au Siu-cheung, BBS
Prof. John Chai Yat-chiu, JP
Ir Prof. Daniel Cheng Man-chung, MH, JP
Mr. Felix Chow Bok-hin
Ir Allen Yeung Tak-bun (representing Miss Susie Ho, JP)
Miss Lam Kam-yi
Mrs. Helen Chan, JP
Mr. Leung Kwong-chuen
Mr. Leung Yam-shing
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, MH, JP
Mr. Sin Kai-ming, MH
Ms. Marilyn Tang Yin-lee
Dr. Jack Yeung Chung-kit
Mr. Kenneth Mak, JP
Mr. Patrick Wong Chi-kwong
Mr. Johann Wong, JP

Absent with Apologies: Dr. Delman Lee
Prof. Helen Meng Mei-ling

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
Dr. Lawrence Cheung	Director, Technology Development (Acting)
Mr. Tony Lam	Director, Corporate Services
Mr. Gordon Lo	Director, Business Management
Mr. Gilbert Chan	General Manager, Mainland Business
Mr. Kim Chan	General Manager, Enterprise Innovation

Mr. Stanley Chu	Head, Internal Audit and Risk Management
Mr. Raymond Fong	Acting General Manager, Environmental Management
Mr. Jonathan Ho	General Manager, Corporate Communication & Marketing
Ms. Lilian Ho	General Manager, Human Resources & Administration
Mr. Thomas Lee	General Manager, Materials & Manufacturing Technology
Ms. Vivian Lin	General Manager, Finance and Procurement
Mr. Derek Louie	General Manager, Automation Services
Mr. Wilson Wong	General Manager, IT Industry Development
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Gillian Luk	Senior Manager, Council Secretariat

Welcome

The Chairman welcomed Ir Allen Yeung, Government Chief Information Officer, who represented Miss Susie Ho to attend the meeting. The Chairman also welcomed the General Managers of HKPC who were in attendance at the meeting.

Vote of Appreciation

The Chairman suggested, and Members agreed, to record a vote of appreciation to Dr. Clement Chen Cheng-jen for his contributions during his tenure as Council Chairman.

Congratulations

The Chairman congratulated Mrs. Katherine Ngan for being awarded the Medal of Honour (M.H.) and Prof. John Chai for being awarded the Justice of Peace (J.P.) on 1 July 2015.

Safety Alert Card

Mrs. Agnes Mak, Executive Director, (ED) referred to the safety alert card tabled at the meeting and said that as part of the safety measures implemented in 2014, the card was compiled for distribution to visitors to the HKPC Building. The card served to remind visitors of the pertinent safety issues and provide essential information such as the emergency evacuation route which was also indicated by signage on each floor.

Confirmation of Minutes (P.C. 10/2015 Revised, P.C. 12/2015 Revised)

The Revised Minutes of the 128th Council Meeting and the Revised Minutes of closed session held on 25 March 2015 had been circulated to Members and there were no further requests for amendments. The Revised Minutes of the 128th meeting and Revised Minutes of the closed session were taken as read, confirmed and signed by the Chairman.

I. Matters Arising

(A) Appointment of Chairman for Business Development Committee and Board Chairman for Productivity (Holdings) Ltd. and HKPC Technology (Holdings) Co. Ltd.

1. Invited by the Chairman to report, _____ said that Council approved by circulation on 24 June 2015 to appoint the incoming HKPC Council Chairman, Mr. Stanley Lau Chin-ho, as (i) the Chairman of the Business Development Committee of the HKPC Council, (ii) Board Chairman of Productivity (Holdings) Ltd., and (iii) Board Chairman of HKPC Technology (Holdings) Co. Ltd with effect from 1 July 2015.

II. Three-year Strategic Plan of HKPC for 2016/17-2018/19 (P.C. 13/2015)

4. Invited by the Chairman, _____ said that at its 113th meeting held on 30 March 2010, the Council agreed that HKPC should submit a three-year strategic plan annually before the Council considered the Three-year Forecast for the same period. The Council also noted that the proposals under the strategic plan would be translated into concrete initiatives in the subsequent Programme and Estimates exercise subject to availability of resources. _____ then briefed Members on the progress of the 12 corporate goals for business development under the Strategic Plan for 2015/16 - 2017/18, of which 11 had been achieved. Details were at paragraphs 4-5 and Appendix 1 of the paper.

(Post-meeting Note: the remaining one was related to the application for accreditation under the Qualifications Framework for the Productivity Training Institute (PTI) of HKPC and accreditation for PTI was formally awarded on 13 August 2015.)

5. As regards the 2016/17 - 2018/19 Strategic Plan which was endorsed by the Finance Committee (FC) at its 54th meeting held on 21 July 2015, _____ said that the Management had revisited the existing four-pronged strategy approved by the Council and considered that it was still valid. The strategy was anchored on

scaling up platforms; creating values for SMEs; sharpening core competencies of HKPC; and developing strategic partnership. The pursuit of this strategy would continue to be guided by the business development corporate goals to meet new and emerging needs of industry. 9 new corporate goals had been identified for pursuit under the 2016/17-2018/19 Strategic Plan and front end preparation work had already started for these new goals, as follows:

- (a) Best practices model (enhanced version) of retail industry (*under strategy of creating value for SMEs*);
- (b) 3D printing (*under strategies of scaling up platforms and creating value for SMEs*);
- (c) Information security for embedded system (*under strategies of scaling up platforms, creating value for SMEs and developing strategic partnership*);
- (d) Novel materials and sensor technology (*under strategies of scaling up platforms and sharpening core competencies*);
- (e) Sector-based automation solution and intelligent robotics technology (*under strategies of scaling up platforms and developing strategic partnership*);
- (f) Biomedical compliance (*under strategies of creating value for SMEs and sharpening core competencies*);
- (g) Industry 4.0 and 中國製造2025 (*under strategies of creating value for SMEs and sharpening core competencies*);
- (h) Carbon reduction (*under strategies of scaling up platforms, creating value for SMEs and developing strategic partnership*); and
- (i) Green transportation (*under strategies of creating value for SMEs, sharpening core competencies and developing strategic partnership*).

6. said that the proposed strategic plan was to provide a basis for the preparation of the detailed estimates for 2016/17 for the Council's consideration in November 2015. Where necessary, the Management would consider revisiting the strategic plan during the year if there were any fundamental changes in the macro policy environment to ensure that HKPC's strategy was in line with government policy. In this connection, the Business Development Committee (BDC), at its 57th meeting held on 14 July 2015, supported the Management's proposal that, as the current four-pronged strategy had been adopted for 5 years or so, it would be opportune for the Council to conduct a brainstorming session for an overall review of the strategy in late 2015 or early 2016, in preparation for the formulation of the next three-year strategic plan for HKPC to continue to provide focused and effective support to industry. The BDC advised that the brainstorming session should also cover other relevant issues such as HKPC's assistance to industrialists on the relocation of high value add process back to Hong Kong [工序回流].

7. said that corporate goals should be developed on a good understanding of industry's needs based on consultation and regular communication. Such goals were also more than mere programme objectives and should instead aim to help industry achieve their longer term strategies in the changing macro environment with clear deliverables, having regard to issues supporting HKPC's involvement such as resource deployment, expertise, duplication of efforts and relevance. In response, said that the objective of setting business development corporate goals was to align HKPC's resources to focus on areas for the development of the required capabilities pertinent to the new and emerging needs of industry in the longer term. The corporate goal on 3-D printing was a clear illustration of HKPC's efforts in such regard. The pursuance of the corporate goals would involve cross divisional collaboration and at times external partners, thereby optimizing HKPC's role in providing effective industry support and promoting productivity excellence. further agreed with that the corporate goals must be underlined by a good understanding of industry needs, both new and emerging ones, for them to be relevant and useful in the end. The 9 corporate goals had hence been compiled based on surveys and studies, opinions from industry (HKPC's Industry Network Cluster sessions being a key channel), upcoming regulatory requirements, government policies as well as macro trend assessment and HKPC's related capabilities.

8. Led by the Chairman, Members deliberated on how HKPC's corporate goals should be developed to help industry upgrade and transform their operations to sustain their competitiveness in the longer run. Members' views are summarized as follows:

- (a) the development of corporate goals should continue to premise primarily on a good understanding of the needs of specific industry sectors based on consultation and regular communication with them to ensure relevance and effectiveness of the solutions and deliverables;
- (b) active promotion of HKPC's services and initiatives would help create a larger industry awareness which would in turn foster enhanced interaction and communication with enterprises;
- (c) corporate goals must clearly articulate the issues and problems that they aimed to address;
- (d) corporate goals must be accompanied by practical solutions and concrete support to industry sectors to meet their needs; and
- (e) for optimal synergy and avoidance of duplication of efforts, consultation, coordination and/or collaboration with other relevant organizations (e.g. ASTRI, universities, associations, professional bodies etc.) should be pursued wherever appropriate.

9. thanked Members for their advice which was broadly what was being pursued by HKPC in the process of identifying, formulating and deepening

its corporate goals. said that the Management would circulate an information paper to Members to provide more details on how the 9 corporate goals had been developed, including relevance of the goals to the macro environment, the industry needs and problems addressed, the solutions and outcomes offered, the rationale for support to the chosen sectors, and communication, consultation and research conducted.

(Post-meeting Note: The information paper was circulated to Members on 6 October 2015.)

10. Members approved the Three-Year Strategic Plan of HKPC for 2016/17 - 2018/19 as outlined in Appendix 2 of the paper and agreed that HKPC would reflect it, as appropriate, in the Three-year Forecast for 2016/17 - 2018/19 to be submitted to the Council in November 2015.

III. Annual Accounts for the Year 2014/15 (P.C. 14/2015)

11. Invited by the Chairman, said that external income for the year was \$391M which was higher than the budget by \$6.9M or 1.8%. On the expenditure side, total expenditure came to \$385.8M which was \$32.6M or 7.8% less than the budget of \$418.4M. Given the change in the accounting treatment of capital expenditure and depreciation in 2014/15, the EBITDA (i.e. earnings before interest, tax, depreciation and amortization) for 2014/15 was \$38.3M. This was very similar to the restated EBITDA for 2013/14 which was \$39M. When restating the 2014/15 financial result on the 2013/14 accounting basis, the restated 2014/15 financial result before depreciation would become \$9.8M, broadly comparable to \$12.3M in 2013/14. The financial results were thus largely comparable considering that the 2014/15 result included additional outlay in capital expenditure which had not been budgeted. As regards the value added, while it was below the budget by 2.5%, it was higher than the value added for 2013/14 by 5.3%.

12. congratulated the Management for achieving a surplus position. But cautioned that rising staff cost, the need for financial outlay for outstanding building maintenance work, the delayed effect of depreciation from slowed down capital expenditure, and the worsening economic outlook would have a dampening effect on HKPC's financial performance in the following years. With the level of subvention largely unchanged, the Management would need to focus more on increasing revenue generation and keeping expense under close control.

13. agreed with and said that EBITDA would better reflect the financial performance of HKPC and would therefore be shown, together with

other financial parameters, to provide an additional parameter for the management accounts reporting on HKPC.

14. Members approved the Annual Accounts of HKPC for the year ended 31 March 2015 which had also been considered by the Audit Committee at its 34th meeting on 22 June 2015 with no major adverse comments, and endorsed by the Finance Committee at its 54th meeting held on 21 July 2015.

IV. Annual Review of HKPC Activities in 2014/15 (P.C. 15/2015)

15. Invited by the Chairman, briefed Members on the performance of HKPC against the set of 30 KPIs for 2014/15 which had been streamlined to 22 KPIs as approved by the Council in November 2014 (section II of the paper). said that the current set of KPIs was internally competitive to the extent that, within the resources available, more efforts being put in one area would necessarily mean less resources being made available for other areas. Along a similar vein, under performance in certain targets could have been over compensated by other parameters, whether such were adopted as KPIs or not. In this connection, Members were briefed by with a video on HKPC's other achievements outside the KPIs to fulfil HKPC's public mission in driving technological innovation, collaboration with strategic partners and establishing cross industry platforms for business productivity (section III of the paper) which demonstrated the strenuous and concerted efforts of staff towards fulfilling HKPC's mission to enhance the growth and development of industry. said that ambitious targets had been set to drive staff performance. While fluctuations were recorded in some KPIs in 2014/15 in terms of variance against targets, major KPIs had demonstrated a continual rising trend in the past 5 years since the KPIs were first set in 2010/11, with details set out in section IV of the paper.

16. Members' views and advice in the pursuant discussion are summarized below:

- (a) while recognizing the need to drive performance, realistic targets should be set and revisions be made as appropriate in the context of relevant development;
- (b) arising from (a) above, a mid year report on KPI performance would be useful; (Post-meeting Note: Half-yearly report on KPI performance would be incorporated into the half-yearly financial performance paper for the Finance Committee)
- (c) HKPC's niche and unique support to industry was not reflected in the current set of KPIs;
- (e) the current costing and pricing policy of HKPC was obsolete and posed a

negative impact on HKPC's financial performance.

17. said that a review of HKPC's costing and pricing policy was being conducted and the Finance Committee would make a recommendation to the Council in due course. Meanwhile, staff should be reminded to adopt staged payment terms for client projects to ensure early realization of income.

18. Members approved the 2014/15 annual review of HKPC's activities as contained in the paper. Members also noted that the performance targets for 2016/17 would be compiled in line with the Three-year Forecast for 2016/17 - 2018/19 and the Programme and Estimates for 2016/17 to be submitted to the Council in November 2015.

V. Reappointment of Auditor (P.C. 16/2015)

19. Invited by the Chairman, H/AR said that at the 123rd Council meeting held on 30 July 2013, Members 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, the reappointment for the second and third financial years would be subject to satisfactory performance of the services of the preceding year. said that the performance of PwC in 2014/15 had been evaluated by the General Manager and a Manager of the Finance and Procurement Division and himself. The performance of PwC in the year 2014/15 was rated as satisfactory with reference to a framework of audit quality recommended by the Hong Kong Institute of Certified Public Accountants.

20. The Audit Committee at its 35th meeting held on 16 July 2015 endorsed for the Council's approval the reappointment of PwC as the group auditor for HKPC and its subsidiaries for the financial year from 1 April 2015 to 31 March 2016 subject to a maximum group audit and tax services fee of .

21. After discussion, Members approved the reappointment of PwC as the group auditor for HKPC and its subsidiaries for the financial year 2015/16 subject to a maximum audit and tax services fee of as previously approved by the Council in July 2013.

(All HKPC General Managers in attendance left the meeting at this juncture except GM/HA.)

VI. 2015/16 Pay Review (P.C. 17/2015)

22. Invited by the Chairman, introduced the paper and said that staff under the Performance Pay System (PPS) were awarded pay adjustment that reflected the market trend by reference to 5 pay trend surveys in the market and the pay trend adjustment of the Civil Service. For staff who were not under the PPS (non-PPS staff), their pay review would continue to follow the pay trend adjustment of the Civil Service. As at 31 May 2015, 539 staff (85.3%) were under the PPS and 93 staff were non-PPS staff (14.7%). said that the proposed 2015/16 upward pay adjustments for PPS staff were 4.36%, 4.4%, 4.66% and 4.58% for the top, senior, middle and general level staff respectively. As for the non-PPS staff, the rates of adjustment would be 3.96% for top and senior level staff and 4.62% for the middle and general level staff. Based on the current salary outlay for all staff, the cost arising from the proposed pay adjustments for PPS and non-PPS staff was estimated to be \$11.1M and \$2.1M per annum respectively, while another \$5.6M was estimated for merit increment. The total financial implication of pay adjustment amounted to \$19M which was within the budget of \$22M.

24. Members approved the proposed 2015/16 pay adjustment for staff under the non-PPS and PPS as per paragraph 22 above and agreed that, in line with the established practice, the proposed pay adjustments would take retrospective effect from 1 April 2015, 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.

VIII. Progress Report from the Audit Committee (P.C. 19/2015)

29. Members noted the report from the Audit Committee on matters considered at its 34th and 35th meetings held on 22 June 2015 and 16 July 2015 respectively.

IX. Progress Report from the Business Development Committee (P.C. 20/2015)

30. Members noted the report from the Business Development Committee on matters considered at its 57th meeting held on 14 July 2015.

X. Progress Report from the Finance Committee (P.C. 21/2015)

31. Members noted the report from the Finance Committee on matters considered at its 54th meeting held on 21 July 2015.

XI. Progress Report from the Staffing Committee (P.C. 22/2015)

32. Members noted the report from the Staffing Committee on matters considered at its 51st meeting held on 10 July 2015.

XII. Any Other Business

(A) Attendance Record of Council Members

33. Members noted their attendance record in 2015 tabled at the meeting.

XIII. Date of Next Meeting

34. The next meeting was tentatively scheduled on 25 November 2015 at 2:30pm.

35. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 6:35pm.