

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

P.C. 33/2010 (Revised)

**Revised Minutes of the 115<sup>th</sup> Meeting of the Hong Kong Productivity Council  
held at 2:30p.m. on Tuesday, 16 November 2010 in the Board Room  
2<sup>nd</sup> floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

**Present:** Chairman – Mr. Clement Chen, BBS, JP

Members – Dr. Cliff Chan Chok-ki  
Ir Daniel Cheng Man-chung, MH  
Mr. Choi Kam-wah, MH  
Mr. Davey Chung (representing Miss Janet Wong, JP)  
Mr. Ernest Ip (representing Mr. Alan Wong, JP)  
Mr. Jimmy Kwok Chun-wah, MH, JP  
Mr. Adolph Leung (representing Mrs. Helen Chan, JP)  
Mr. Lo Foo-cheung, JP  
Mr. Andrew Mak Yip-shing  
Dr. David Ng Tai-chiu  
Mr. Victor Ng  
Mr. Poon Siu-ping, MH  
Dr. Elizabeth Shing, BBS, JP  
Ms. Marilyn Tang Yin-lee  
Miss Elizabeth Tse, JP  
Dr. Carrie Willis, SBS, JP  
Ms. Carol Yuen (representing Ms. Maria Kwan, JP)

**Absent with Apologies:** Mr. Albert Au Siu-cheung  
Dr. Raymond Chan, JP  
Dr. Fan Cheuk-hung  
Prof. Lee Wing-bun  
Dr. The Hon. Samson Tam Wai-ho, JP

**In Attendance from HKPC:**

Mrs. Agnes Mak Tang Pik-ye, MH, JP	Executive Director
Mr. Edmund Sung	Director, Business Consulting
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Jonathan Ho	General Manager, Corporate Communications
Dr. Samuel Leung	General Manager, Finance and Administration
Mr. Alfonso Tam	Principal Consultant, Council Secretariat
Ms. Miranda Yeap	Senior Consultant, Council Secretariat

## **Welcome to New Members**

The Chairman welcomed Ms. Carol Yuen, Deputy Director-General of Trade and Industry representing Ms. Maria Kwan, Mr. Ernest Ip, Assistant Commissioner for Labour representing Mr. Alan Wong, Mrs. Agnes Mak, Executive Director, HKPC and Dr. Samuel Leung, General Manager, Finance and Administration who attended the meeting for the first time.

## **Confirmation of Minutes (P.C. 23/2010 Revised)**

The Revised Minutes of the 114<sup>th</sup> Council meeting held on 3 August 2010 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.

The Minutes of the Special Council Meeting held on 26 October 2010 were prepared and separately circulated by the Innovation and Technology Commission (ITC).

### **I. Report from the Audit Committee (P.C. 26/2010)**

1. introduced the paper and said that the Audit Committee (AC) held its 16<sup>th</sup> meeting on 19 October 2010 and agreed to the recommendations of 3 internal audit reports on Treasury Management, Project Expenditure Management and Building Services Management. Separately, the AC noted the following matters:

- (a) extra measures taken to ascertain the receipt of goods ordered (for goods valued over HK\$0.1M);
- (b) completion of compliance checking on 6 topics to enhance corporate governance and transparency in HKPC's operation;
- (c) the financial performance of HKPC for the first two quarters of 2010/11;
- (d) completion of an audit programme on tender and vendor selection process for the Automotive Parts and Accessory Systems R&D Centre Ltd.; and
- (e) the attendance record of AC Members in 2010 and the 2011 AC meeting schedule.

2. Members noted the latest progress of the Audit Committee.

## **II. Report from the Business Development Committee (P.C. 27/2010)**

3. [REDACTED] was invited by the Chairman to report on behalf of [REDACTED] who was unable to attend today's meeting. [REDACTED] said that the Business Development Committee (BDC) held its 43<sup>rd</sup> meeting on 2 November 2010. During the meeting, the BDC endorsed 5 new business initiatives of HKPC to meet changing industry needs, namely, a Mechanical Watch Movement Development Centre; a Chemical Extraction and Processing Laboratory; an Intelligent Manufacturing System; the processing and application of new materials (carbon composite and Al-Li alloy); and a Next-generation Entrepreneurs Web (NEW). The first 4 initiatives were technology related and required substantial equipment investment estimated at HK\$47.3M. However, HKPC was not financially disposed to support these initiatives under its annual cash-limited baseline subvention. As such, they would fall outside the scope of the Programme and Estimates for 2011/12 and HKPC would need to identify additional resources to implement them.

4. [REDACTED] reported that separately, the BDC also noted the following matters:
  - (a) the financial performance of the 3 WFOEs was improving and the total accumulated loss of the WFOEs was reduced to HK\$0.2M as at 30 September 2010. As the marketing arm and business integrator for HKPC services in the Mainland, the three WFOEs would continue to focus on industrial marketing, projects for PRD municipal governments and public training. They would also promote the Dongguan TURN model in the PRD and collaborate with PRD municipal governments to provide service support to industries, particularly in training;
  - (b) the Shenzhen SZ-HK Productivity Foundation Co., Ltd. (SZJV) would focus on working with the Shenzhen Municipal Government on projects for industries, in particular on helping manufacturers fulfill requirements of environmental regulations;
  - (c) a shareholder agreement was concluded by both shareholders (i.e. the Chongqing Productivity Promotion Centre and GZWFOE for 60% and 40% holding respectively) to reduce the paid-up capital of the Chongqing-Hong Kong Productivity Promotion Centre Co. Ltd. (CQJV) from RMB 3 million to RMB 0.5 million without changing the current share ratio. CQJV would continue to serve as the marketing arm to facilitate collaboration amongst HKPC, R&D

institutions, enterprises, and governments both in Hong Kong and Chongqing;

- (e) a report on HKPC's involvement in government funding schemes and the interim and final performance review of 3 completed ITF projects; and
- (f) the attendance record of BDC Members in 2010 and the 2011 BDC meeting schedule.

5. With regard to the 4 technology related initiatives, \_\_\_\_\_ said that the Management had submitted funding bids to the Government's 2010 Capital Non-Works Resource Allocation Exercise (RAE) for the first 2 initiatives. However, we had just been informed that the bids were not successful. In the light of this development, the Management would explore the feasibility of alternative resource support for these initiatives, review their implementation priorities and consult the BDC on the way forward. In response, \_\_\_\_\_ said that the Capital Non-Works RAE was very competitive with some 80 odd government departments as well as public bodies bidding for a limited amount of funding available each year. Generally speaking it would be difficult for those which already received recurrent subvention from Government to be accorded priority in funding allocation.

6. Referring to the projects in question, \_\_\_\_\_ invited HKPC to consider whether HKPC really felt strongly enough to have to press ahead with the items despite the negative feedback from the RAE and if so whether drawing down the reserves could be an option. \_\_\_\_\_ also invited Members to consider whether there could be other funding or delivery modes (e.g. through lease). \_\_\_\_\_ was not sure if it was necessary for HKPC to own and maintain the mechanical watch movement facilities, for instance.

7. \_\_\_\_\_ said that the effectiveness of HKPC's technology related consultancy must necessarily rely on complementary equipment and facility support for effective prototyping, demonstration and eventual transfer to industry to help them meet changing and emerging needs. The proposed Mechanical Watch Movement Development Centre was a good example which was conceived in response to the pending discontinuation of Switzerland's supply of mechanical watch movements outside Europe. As such the proposed centre was very well received by the related industry associations which support

was eminently communicated at the latest HK-INC industry consultation session on the issues relevant to the longer term development of Hong Kong's important watch and clock industry. In agreement, said that there was great expectation from the watch industry on the proposed watch centre to help them meet the new challenges under a more hostile business environment for the mechanical watch manufacturers.

8. In reply to , said that HKPC's development initiatives were not always immediately financially rewarding or else market players would have been interested. That said, agreed that the Management should provide a business plan for each of these initiatives when the BDC was next consulted on the way forward. Supplementing, said that the Management had actually addressed this issue and it was not expected that these 4 initiatives would generate revenue in excess of \$3.15M in the first three years. stressed that the worthiness of these initiatives should not be judged by financial considerations alone.

9. Members noted the latest developments at the Business Development Committee.

### **III. Report from the Finance Committee (P.C. 28/2010)**

10. said that the Finance Committee (FC) held its 40<sup>th</sup> meeting on 9 November 2010. During the meeting, the FC endorsed for Council's approval the Programme and Estimates of HKPC for 2011/12 and Three-Year Forecast for 2011/12-2013/14 as well as the Programme and Estimates of the BMM Ltd. for 2011/12. The FC also approved HKPC's new standard staff cost rates which were proposed based on the parameters of annual salary adjustment and the amount of overhead cost attributable to project activities, as listed out in detail in paragraphs 7-8 of the paper P.C. 28/2010. Separately, the FC noted the financial performance of HKPC for April-September 2010, the quarterly report on investment of HKPC's funds at an average return rate of 0.4%, the attendance record of FC Members and the 2011 FC meeting schedule.

11. Members noted the latest developments at the Finance Committee.

### **IV. Report from the Staffing Committee (P.C. 29/2010)**

12. was invited by the Chairman to report on behalf of who was unable to attend today's meeting. said that the Staffing Committee (SC) held its 37<sup>th</sup> meeting on 26 October 2010 and endorsed for the Council's approval HKPC's staff establishment for 2011/12 at 692, compared to

701 in 2010/11. Separately, the SC noted the following matters:

- (a) the completion of the transfer-cum-redundancy exercise of the eight-member administration unit of BMM Ltd., arising from the rationalization of administration and building management services handled by BMM Ltd.;
- (b) the staffing position of HKPC as at 30 September 2010;
- (c) the result of the 8<sup>th</sup> survey of the One-minute Staff Morale Index with a response rate of 84%;
  
- (e) the attendance record of SC Members and the 2011 SC meeting schedule.

13. Members noted the latest developments at the Staffing Committee and approved the proposed 2011/12 HKPC's staff establishment of 692.

**V. Programme and Estimates of HKPC for 2011/12 and Three-Year Forecast for 2011/12-2013/14 (P.C. 30/2010)**

14. Invited by the Chairman to report, introduced the paper and said that the Council agreed at its meeting on 30 March 2010 that HKPC should submit a three-year strategic plan annually before Council considered the Three-year Forecast for the same period. The strategic plan would set out the broad strategies of HKPC for the coming three years, which would be translated into concrete initiatives in the P&E exercise subject to availability of resources. HKPC's Three-Year Forecast for 2011/12-2013/14 was premised upon the Three-Year Strategic Plan for the same period which was approved by Council at its 114<sup>th</sup> meeting held on 3 August 2010. The Strategic Plan was anchored on a four-pronged strategy, namely: scaling up platforms; creating value for SMEs; sharpening core competencies; and developing strategic partnership. In pursuit of the four-pronged strategy under the Strategic Plan, HKPC had identified 4 technology related initiatives to address the more macro and urgent needs of industries:

- (a) Mechanical Watch Movement Development Centre;
- (b) Chemical Extraction and Processing Laboratory;
- (c) Intelligent Manufacturing System; and
- (d) New Material Processing and Application (Carbon Composite Material and Al-Li Alloy).

As noted by Members earlier at the meeting under Item II, these 4 initiatives would require \$47.3M additional funding in the next 3 years for the necessary equipment investment. As HKPC was not financially disposed to support these initiatives, they would fall outside the scope of the Programme and Estimates for 2011/12 and HKPC would need to identify additional resources to implement them. Meanwhile, HKPC would continue to provide productivity enhancement support based on its core competence in Manufacturing Technologies, Management Systems, Information Technologies and Environmental Technologies. In particular, HKPC would continue with key projects and develop new initiatives to help the industry meet challenges:

- (a) Expanding the TURN model;
- (b) CP3 (Cleaner Production Partnership Programme);
- (c) Research, development and machine-based technology services;
- (d) Information and Communications Technology (ICT);
- (e) Domestic Sales for the PRC market; and
- (f) Platforming of Next-generation Entrepreneurs Web (NEW).

The new initiatives of these key projects, including new and emerging ones, would be implemented by using HKPC's existing resources. They were outlined in paragraph 8 and under the "Highlight of Future Activities" sections of Appendices 13 to 16 of the paper P.C. 30/2010.

15. Continuing, said that external income forecast for the period was estimated to increase by 4.1% from \$293.5M in 2011/12 to \$305.4M in 2013/14. Expenditure was estimated to increase by 2.6% over the same period. The income/expenditure ratio would increase from 63.1% in 2011/12 to 64.1% in 2013/14. For 2011/12, the Provisional Operating Expenditure Envelope (OPEX) was \$171.4M as advised by the ITC. Total income and expenditure excluding notional rental income and expenses, came to \$293.5M and \$464.9M respectively. The income and expenditure forecast had taken account of, amongst others, the slightly reduced staff establishment of 692 approved by Members under item IV, and the assumption of an OGCIO grant of \$7.4M to support the continued operation of HKCERT in 2011/12. The income/expenditure ratio for HKPC was estimated at 63.1%.

16. Separately, said that the income of the 3 WFOEs was estimated to be in the range of \$17.1M to \$17.6M for the period. The staffing requirement of the WFOEs would be maintained at 49 for the forecast period. The major focus of the WFOEs would be on industrial marketing, projects for PRD municipal governments, support to the Shenzhen SZ-HK Productivity Foundation Co., Ltd. (SZJV), market development for TURN and the Cleaner Production Partnership Programme, public training and study missions. The

forecast of WFOEs did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement.

17. noted that whilst the paper had highlighted HKPC's four strategic areas (namely, scaling up platforms, creating values for SMEs, sharpening core competencies and developing strategic partnership); four core competence areas (namely, Manufacturing Technologies, Management Systems, Information Technologies and Environmental Technologies) and key activity types (like consultancy, training, manufacturing support and exhibitions/study mission/conference), the linkage between these classifications and the budget proposals was not clear. suggested that HKPC should consider adopting performance indicators linked to the strategies or core competence areas, and these should preferably be outcome-based/feedback-based, more so than input-based (e.g. seminars held, attendance numbers). also believed that HKPC could consider setting clear budget or financial performance targets. If a surplus budget, for instance, was preferred to a balanced budget, this should be made clear upfront.

18. In response, said that at the last Finance Committee (FC) meeting held on 9 November 2010, the issue of budget planning was discussed and agreed with the FC that the Management would keep even closer track of the feedback of clients and information gathered from industry, the market trend, the technology landscape and industry's demand for solutions on which to anchor for the purpose of budget planning and forecast.

also undertook to conduct a mid-year review of HKPC's income and expenditure for 2011/12 and prepare revised estimates where necessary and appropriate for the FC and Council.



19. [redacted] said that HKPC was not a profit driven organization. While the need to avoid competition with the private sector and to withdraw from mature markets would necessarily impact on HKPC's income, it should also be recognized that not all HKPC activities were revenue producing having regard to its public mission role. In addition, there was also a continuing need for HKPC to engage in development activities, which were mostly financially unrewarding at the initial stage, to identify and transfer the latest technologies and management models to help industry meet new and emerging challenges, and in the course of doing so also strengthen and renew its own capability to ensure that HKPC's support programmes would remain relevant to the changing needs of industry over time. While a zero surplus budget was uncommon for private companies, it was understandable and not unreasonable in HKPC's context. With regard to the proposed 2011/12 income target which was lower than that for 2010/11, [redacted] invited [redacted] to explain the rationale behind the proposal. [redacted] said that high top lines were set in the past for the purpose of driving staff to achieve ambitious income targets which were not attained. It was necessary to take a prudent and realistic budget planning approach and so the Management had proposed a more realistic target at \$293.5M which was already higher than any of the actual annual income achieved in the past. [redacted] said that budget planning was essentially a fluid and living exercise and as agreed at the last FC meeting, the Management would conduct a mid-year review of HKPC's income and expenditure position on which to propose revisions to the 2011/12 budget as appropriate and necessary.

20. [redacted] agreed with [redacted] and said that there were serious shortcomings in continuously employing ambitious income targets to drive staff. There was also a limit to what HKPC could and should achieve in terms of income generation given its public mission role and subvented status. [redacted] commented that, however, a small budget surplus was not unreasonable as it would provide the much needed funding for HKPC to develop new services and help SMEs. In this connection, [redacted] said that the Management might in time wish to consider the feasibility of conducting budget planning based on the concept of available chargeable staff hours for each grade of staff, expected utilization rate of each grade of staff, charge-out rates of each grade of staff and target recovery on expected projects as major parameters for setting the income target which was the normal practice in the private sector.

22. After discussion, and with ED/HKPC's pledge to keep the subject under review, Members approved HKPC's Three-Year Forecast for 2011/12-2013/14 and the detailed Programme and Estimates of HKPC for 2011/12 (including the staff establishment of 692 endorsed by the Staffing Committee at its 37<sup>th</sup> meeting held on 26 October 2010) which were endorsed by the Finance Committee at its 40<sup>th</sup> meeting held on 9 November 2010. Separately, Members also agreed to HKPC pursuing identification of resource support for the implementation of the 4 technology related new initiatives (outlined in paragraph 6 of the paper P.C. 30/2010) which required a total funding of \$47.3M; and the 3-Year Forecast of WFOEs for 2011/12-2013/14 which did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement.

#### **VI. Programme and Estimates of BMM Ltd. for 2011/12 (P.C. 31/2010)**

23. Invited by the Chairman to report, introduced the paper and said that the BMM Ltd. was financed by HKPC's management fee income on a cost-recovery basis. The Company's expenditure, which formed part of the HKPC Building running cost, was carefully controlled. The annual budget for running the BMM Ltd. in 2011/12 was estimated to be \$3.79M, which was \$2.4M less than that of the 2010/11 budget. The major reason for this substantial reduction was attributed to the savings in staff cost generated from the transfer cum redundancy of 8 administration staff from BMM to HKPC in August 2010 to rationalize the duties of BMM.

24. said that apart from providing building management services, BMM Ltd. continued to support HKPC's Green Worklife Campaign which generated an estimated saving of \$0.4M in 2009/10. HKPC would continue to work with BMM Ltd. on cost cutting efforts to maintain its expenditure at a reasonable level. HKPC would also critically examine the pros and cons of outsourcing the building management function. In this connection, advised that the Management planned to conduct another study again in early 2011 to benchmark the cost-effectiveness of BMM Ltd. with other building management service providers in the market.

25. Members approved the Programme and Estimates of the BMM Ltd. for 2011/12 which were endorsed by the Finance Committee at its 40<sup>th</sup> meeting held on 9 November 2010.

## **VII. Annual Review of HKPC Activities in 2009/10 and Performance Targets for 2011/12 (P.C. 32/2010)**

26. Invited by the Chairman to report, introduced the paper and said that at the 112<sup>th</sup> Council meeting held on 17 November 2009, the performance indicators for HKPC along 4 Key Performance Measures (KPMs) were reviewed. The indicators were subsequently fine-tuned in consultation with ITC and formally approved by ITC in February 2010. While the new indicators had not been used to set targets for HKPC for 2009/10, HKPC's performance for the year was reported along these new indicators in this paper. HKPC's performance in 2009/10, compared to the 2008/09 actual result and the 2009/10 Programme and Estimates, where relevant, was given in paragraph 4 of the paper P.C. 32/2010. As regards the performance targets for 2011/12, they were based on the Programme and Estimates for 2011/12 and tabulated at Appendix 2 of P.C. 32/2010.

27. In reply to , said that a client would be invited to complete a survey questionnaire upon completion of a consultancy project to provide data for the KPM to measure HKPC's effectiveness from the outcome perspective, expressed as the percentage of clients reporting productivity increase. Training participants were not covered by this measure and their views were collected via completion of a training evaluation form.

28. In reply to , said that the best way to ascertain industry support of HKPC's initiatives and services was to listen to them. The HK-INC consultation sessions provided a very useful avenue for industry's voice to be heard. The earlier consultation session for the watch and clock industry was a good example which unequivocally confirmed the watch industry's support of the proposed mechanical watch movement development centre.

29. said that industry support of existing HKPC services was only part of the issue. It was more important for HKPC to anticipate industry needs, transfer the latest technologies and models and create flagship support programmes and solutions for industry, especially SMEs. With government subvention providing for only one third of HKPC's operating expenses, pressure on revenue generation in turn would lead HKPC staff to linger in revenue producing activities for longer than it was desirable and attract criticisms. In response, said that HKPC faced major resource limitations with regard to the development of new initiatives to address new and emerging industry needs given that it was financed on a cash-limited annual baseline subvention. This was why the Council had tried to seek funding from the Government for some of its initiatives. In any event, the Management should not be discouraged from developing new initiatives and solutions for industry

and should continue to explore alternative funding options such as the ITF to support worthwhile initiatives to meet the emerging needs of industry.

30. After discussion, Members approved the 2009/10 Annual Review and the performance targets for 2011/12 for submission to the ITC for approval.

**VIII. Any Other Business**

**(B) Attendance Record**

32. Members noted their attendance record in 2010 tabled at the meeting.

**(C) 2011 Meeting Schedule**

33. Members noted the proposed 2011 Council meeting schedule tabled at the meeting as follows:

<b>Meeting</b>	<b>Date and Time</b>
116 <sup>th</sup> PC meeting	29 March 2011 (Tuesday) 2:30pm
117 <sup>th</sup> PC meeting	26 July 2011 (Tuesday) 2:30pm
118 <sup>th</sup> PC meeting	22 November 2011 (Tuesday) 2:30pm

34. Members noted that the meetings would be held on the specific dates and adjustment, if at all necessary, would be within a period of one week before or after the proposed dates to fit in with Members’ schedules.

**IX. Date of Next Meeting**

35. The next meeting was tentatively scheduled on 29 March 2011 at 2:30pm.

36. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:45pm.