

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

P.C. 37/2009 (Revised)

**Revised Minutes of the 112<sup>th</sup> Meeting of the Hong Kong Productivity Council  
held at 2:30p.m. on Tuesday, 17 November 2009 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 – Prof. Cliff Chan  
Dr. Raymond Chan, JP  
Mr. H.Y. Cheung (representing Mrs. Helen Chan, JP)  
Ms. Ava Chiu (representing Mr. Duncan Warren Pescod, JP)  
Mr. Choi Kam-wah  
Mr. Davey Chung (representing Miss Janet Wong, JP)  
Dr. Fan Cheuk-hung  
Ms. Maria Kwan, JP  
Mr. Jimmy Kwok, MH, JP  
Prof. Lee Wing-bun  
Mr. Lo Foo-cheung, JP  
Mr. Victor Ng  
Mr. Poon Siu-ping, MH  
Dr. Elizabeth Shing, BBS, JP  
Mr. Cliff Sun Kai-lit, BBS, JP  
Dr. The Hon. Samson Tam Wai-ho, JP  
Dr. Carrie Willis, SBS, JP  
Mr. Alan Wong, JP  
Dr. Daniel Yip Chung-yin

**Absent with Apologies:** Ms. Cheung Lai-ha

**In Attendance from HKPC:**

Mr. Wilson Fung	Executive Director
Mr. Edmund Sung	Director, Business Consulting
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development (Acting)
Mr. Sam Law	General Manager, Finance
Mr. M.P. Au	General Manager, Human Resources and Administration
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Corporate Services

## **Welcome to New Members**

The Chairman welcomed Ms. Ava Chiu, Deputy Government Chief Information Officer, representing Mr. Duncan Pescod; Ms. Maria Kwan, Director-General of Trade and Industry; and Mr. H.Y. Cheung, Principal Economist, representing Mrs. Helen Chan, who attended the meeting for the first time.

## **Confirmation of Minutes (F.C. 10/2009 & P.C. 25/2009, P.C. 23/2009 Revised)**

The Minutes of the 111<sup>th</sup> Council meeting held concurrently with the 36<sup>th</sup> Finance Committee meeting on 21 July 2009 had been circulated to Members and there were no requests for amendment. The Minutes were taken as read, confirmed and signed by the Chairman. In this connection, Ms. Maria Kwan said that, with regard to paragraph 23 of the Minutes, the TID representative at the meeting was silent during that part of the discussion and that the position of the Trade and Industry Department (TID) should be taken as the same as that of the Government position as expressed by Mr. Duncan Pescod and Mr. Eddy Chan. Members noted for record the remarks of Ms. Maria Kwan.

The revised Minutes of the Special Meeting held on 16 September 2009 had been circulated to Members. There were no further requests for amendments from Members. The revised Minutes were taken as read, confirmed and signed by the Chairman.

## **I. Matters Arising**

### **(B) Follow-up on Hay Review - Modernization of Benefits**

4. said that at the 111<sup>th</sup> Council meeting, Members agreed to Hay's recommendation on a 2-stage approach with regard to the compensation scheme for HKPC's Directorate grade staff, first by extending the variable pay to the Directorate grade staff in 2010, followed by an overall

review of HKPC's benefits with a view to modernizing them to complement the market and performance oriented pay scheme of HKPC. The Management would discuss with the Council and Standing Committee Chairmen and ITC on the way forward and report to the Council in due course.

### **III. Report from the Business Development Committee (P.C. 27/2009)**

8.                   briefed Members on the progress reports presented at the 40<sup>th</sup> meeting of the Business Development Committee (BDC) held on 9 November 2009, including:

- (a) the operation of the WFOEs and the two Mainland companies in Shenzhen (SZJV) and Chongqing (CHPPCCL) respectively;
- (b) progress of HKPC's commercial research and development (CRD) projects;
- (c) the progress of the Quality Elderly Service Scheme (QESS) and the Quality Automotive Services Scheme (QASS); and
- (d) HKPC's involvement in government funding schemes and the interim performance review of 1 completed ITF project.

9.                   said that the BDC, in noting the latest operation of the WFOEs, supported the present business model whereby the WFOEs acted as the networking and marketing arm with HKPC providing the expertise and technical support for project delivery. The BDC also advised that the WFOEs should take a useful role by acting as a platform, via HKPC, to provide commercialization and marketing support to the ITF R&D Centres. With regard to the longer term sustainability of the WFOEs, the Management would conduct a review and consult the BDC on the way forward for the WFOEs, especially after the withdrawal of the L4 rate, to provide effective support to Hong Kong industries in the PRD, with consideration to extending suitable support to the trend for the gradual northward movement of some factories beyond the PRD.

                    said that as part and parcel of HKPC's PRD strategy, the BDC also supported the Management's view that the business model of CHPPCCL should be critically reviewed and that in the event of withdrawal from this JV, HKPC and the WFOEs would continue to extend support beyond

the PRD on project basis.

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

#### **IV. Report from the Finance Committee (P.C. 28/2009)**

13.                   said that the Finance Committee (FC) held its 37<sup>th</sup> meeting on 12 November 2009. During the meeting, the FC endorsed for Council's approval:

- (a) the Programme and Estimates of HKPC for 2010/11 and Three-Year Forecast for 2010/11-2012/13 which would be discussed under Item VI;
- (b) the Programme and Estimates of the BMM Ltd. for 2010/11 which would be discussed under Item VII; and
- (c) the abolition of the L4 charging rate for the WFOEs.

Separately, the FC also noted the financial performance of HKPC for the first six months of 2009/10, the interest income on HKPC's funds as at 30 September 2009 and HKPC's machine cost rates for 2009/10.

14. With regard to the proposed abolition of the L4 charging rate (L4 rate),  
                  said that the L4 rate was originally adopted to encourage Hong Kong manufacturers operating in the Mainland, especially SMEs, to use WFOEs' services which would in turn help ensure the viable operation and healthy growth of WFOEs in the long term. However, the use of L4 rate might give rise to questions on whether HKPC was able to recover all its direct and overhead costs in carrying out productivity related assignments elsewhere than in Hong Kong. To address the situation as soon as possible, the FC recommended to abolish the L4 rate for the provision of services to the WFOEs. While the abolition of the L4 rate was not expected to materially increase the costs to be borne by industries in the short run, the Management would examine whether the abolition would affect the future operation of the WFOEs in its

review on the longer term sustainability and operation of the WFOEs in the PRD and beyond.

15. said that the FC, in reviewing the financial performance of HKPC, had also agreed that in future reports, a qualitative analysis of the financial performance should be included to provide a snapshot of the status of HKPC's business activities. In addition, the Management should also provide details of capital equipment procured during the report period as capital investment was vital to renewing and expanding HKPC's capabilities to remain relevant to the new needs of industries.

16. In response, said that qualitative analysis of HKPC's financial performance would be conducted for future reports to the FC. then referred Members to paper P.C. 34/2009 tabled at the meeting on HKPC's actual and planned expenditure in capital equipment for the past two-and-a-half years and 2010/11. said that over-expenditure in capital equipment was recorded for 2007/08 and 2008/09 as it was necessary to replace and upgrade obsolete equipment, and to procure new equipment for EMC, material analysis and precision engineering services. For 2009/10, the annual budget (at \$18.7M) for capital equipment would be maintained despite a significant under-expenditure in the first half of the year which was normal taking into account the necessary preparation involved in the procurement process through tender exercises. For 2010/11, the proposed budget for capital equipment was \$17.65M, of which \$10.5M was planned for capital equipment for technology development and business, while the balance was earmarked for infrastructural improvement such as network, building facilities and general operations. However, pointed out that HKPC could not just rely on the annual programme and estimates to provide adequate resources for all the necessary capital investment to support technology development towards meeting the new and emerging needs of industries. In this connection, the Management had put in bids for additional resources in the context of the Government's capital non-works resources allocation exercise (RAE). The Management was also considering two new industry support initiatives, namely the setting up of a Chemical Processing and Extracting Laboratory to assist the local food and chemical processing companies, and the augmentation of capital equipment to provide one-stop testing services for watch movement prototype manufacturing. The Management would discuss with the Government on the financial implications once firmer proposals had been drawn up.

17. Members noted the latest developments at the Finance Committee. Members also approved the abolition of the L4 charging rate in HKPC's pricing policy for the provision of services to the WFOEs and the use of L3 rate for the provision of services to its WFOEs in the Mainland.

## V. Report from the Staffing Committee (P.C. 29/2009)

18. introduced the paper and said that the Staffing Committee (SC) held its 34<sup>th</sup> meeting on 2 November 2009 and endorsed for Council's approval HKPC's staff establishment for 2010/11 at 701 compared to 704 in 2009/10, a proposal to disapply the "no double housing benefits" rule of Non-accountable Cash Allowance for eligible new hire .

19. With regard to the proposal to disapply the "No Double Housing Benefits" rule, said that in accordance with the letter from ITC dated 9 December 2003, the general requirement for controlling officers to separately enforce the "no double housing benefits" rule in the subvented sector, including HKPC, was removed. Since then, HKPC had taken steps to migrate from the government-linked pay system to a more market-oriented practice, including the introduction of a Performance Pay System (PPS) which was endorsed by the Staffing Committee and approved by the Council in late 2007. While the Management had undertaken at the 12<sup>th</sup> AC meeting in July 2009 to conduct a review of the current Standard Practices on benefits (including housing benefits), to bring them fully in line with HKPC's already-existent market-oriented pay policies, it was at the same time considered advisable and necessary to proceed first to revise the Standard Practices to disapply the "no double housing benefits" requirement in the context of Non-accountable Cash Allowance (NCA) to dispense with any need to seek exceptional approval of the Staffing Committee which would still somehow be viewed as departure from Standard Practices, no matter how outdated the Standard Practices had become in this aspect. Therefore, the present proposal would provide a simple solution to address the issue by disapplying the "no double housing benefits" rule for new hire whose employment started on or after 1 January 2010.

20. said that, in endorsing the proposal, the SC was satisfied that the resulting financial implications would be minimal because not all new hire would be immediately eligible for NCA. Moreover, for all vacancies/posts included in HKPC's annual programme and estimates, the associated allowance entitlement, where applicable, should be budgeted in full anyway.

24. Invited by , continued with the report and said that at the same meeting, the SC had also noted:

- (a) the synchronization of the staff performance appraisal cycle with the financial year cycle for the determination of variable pay;
- (b) the staffing position of HKPC as at 30 September 2009;
- (c) the result of the 5<sup>th</sup> survey of the One-minute Staff Morale Index;
- (d) the recruitment advertisement for the post of Director, Technology Development and advised that the Recruitment Panel should comprise the SC Chairman, 2 SC/Council members, 1 independent external person, the Executive Director and the Director, Corporate Services, with a mix of male and female panel members;

27. In reply to \_\_\_\_\_, \_\_\_\_\_ explained that the total amount of variable pay (VP) for a specific financial year would first be endorsed and approved by the SC and Council respectively before recommendation by the internal Variable Pay Committee on the amount of VP to be awarded to each eligible staff.

28. With regard to the 5<sup>th</sup> One-minute Staff Morale Index, \_\_\_\_\_ said that it attracted the highest response (86%) from staff since its launch in July 2007, indicating staff support and confidence in participation. Of the four surveyed areas, there was a healthy rise in the satisfaction level for “Management”, “Work Aspects” and “Teamwork and Cooperation” while the satisfaction level for “Supervisor” was stable. The satisfaction level for “Work Aspects” was the highest amongst the surveyed areas which also showed the largest jump in scores. This indicated significant improvement in staff morale in general. The surveys conducted so far had created a tracking system to help senior management gauge staff’s satisfaction level at work and understand the Management’s leadership quality from the staff’s perspective. The surveys would continue to be conducted every four months and the survey results would be reported to the SC and Council.

29. Members noted the current developments at the Staffing Committee and approved:

- (a) HKPC’s staff establishment of 701 for 2010/11; and

- (b) the proposal to disapply the “no double housing benefits” rule of Non-accountable Cash Allowance for eligible new hire effective from 1 January 2010.

**VI. Programme and Estimates of HKPC for 2010/11 and Three-Year Forecast for 2010/11-2012/13 (P.C. 30/2009)**

30. Invited by \_\_\_\_\_, \_\_\_\_\_ introduced the paper and said that the proposed estimates and forecast for 2010/11-2012/13 had been endorsed by the Finance Committee at its 37<sup>th</sup> meeting held on 12 November 2009. During the forecast period, HKPC would continue to provide productivity enhancement support based on its core competence with a focus on the following major key projects and new initiatives to help industry meet challenges:

- (a) TURN and TURN II programme for enterprises to transform and upgrade their operations;
- (b) CP3 (Cleaner Production Partnership Programme);
- (c) domestic sales for the PRC market;
- (d) knowledge management through ICM consultancy;
- (e) corporate social responsibility via the CSR<sup>CARE</sup> programme;
- (f) research, development and machine-based technology transfer initiatives, especially for the foundation industries; and
- (g) sectoral platforming with various quality services certification schemes and industrial parks in the PRD for individual industry sectors.

31. \_\_\_\_\_ said that due to improvement in the market, it was projected that HKPC’s fee income for the year ending 31 March 2010 would be in the region of \$304M, against the 2009/10 income budget of \$287M. It was estimated that the financial outturn for 2009/10 would produce a budget surplus of \$6M, instead of the original budget deficit at \$17.8M. As regards the forecast for the period 2010/11 to 2012/13, balanced budgets were estimated. Income forecast for the period was estimated to increase by 4.9% while expenditure would increase by 3.2%. The income/expenditure ratio would increase from 66% in 2010/11 to 67.1% in 2012/13. For the detailed estimates for 2010/11, total income forecast, including notional rental income, would be \$331.3M. Total expenditure was projected to be \$501.9M, including the staff



establishment of 701 endorsed by the Staffing Committee at its 34<sup>th</sup> meeting held on 2 November 2009, a provision of \$5M for the variable pay for 2010/11, and the assumption of an OGCI grant of \$7.1M to support the continued operation of HKCERT in 2010/11. The income/expenditure ratio was estimated at 66%.

32. Continuing, said that income of the 3 WFOEs was estimated to be \$15.5M in 2010/11, rising to \$16.3M in 2012/13. The major focus of the WFOEs would be on industrial marketing, strategic collaboration with local authorities in the PRD, support to the Shenzhen SZ-HK Productivity Foundation Co., Ltd. (SZJV), and market development for TURN and the Cleaner Production Partnership Programme.

33. said that the legislative process might not be completed to effect the 2009-10 civil service pay reduction by end 2009. In this connection, the Provisional Operating Expenditure Envelop (OPEX) for HKPC in 2010/11, might be revised. The ITC would inform HKPC of the final figure.

34. In response to , said that understood that the Commerce and Economic Development Bureau had been liaising with HKPC for more information on the achievement of TURN to facilitate consideration of the TURN II proposal.

35. After discussion, Members approved:

- (a) HKPC's revised estimates for 2009/10;
- (b) HKPC's Three-Year Forecast for 2010/11-2012/13; and
- (c) the detailed Programme and Estimates of HKPC for 2010/11 which included the staff establishment of 701 endorsed by the Staffing Committee at its 34th meeting held on 2 November 2009.

36. Members also agreed to the 3-Year Forecast of WFOEs for 2010/11-2012/13, which did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement.

## **VII. Programme and Estimates of BMM Ltd. for 2010/11 (P.C. 31/2009)**

37. 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 2010/11 was estimated to be \$6.2M, which was \$304 less than that of the 2009/10 budget. This amount included \$5.69M for staff cost, \$0.02M for capital expenditure and \$0.49M for recurrent expenses. Apart from providing building management services, since January 2009, BMM Ltd. had contributed to HKPC's Green Worklife Campaign which had achieved a saving of \$0.23M so far.

38. said that HKPC would continue to work with BMM Ltd. on cost cutting efforts to maintain its expenditure at a reasonable level. The Management would also critically examine the pros and cons of outsourcing the building management function and had plans to conduct another study again in 2010 to benchmark the cost-effectiveness of BMM Ltd. with other building management service providers in the market.

39. Members approved the Programme and Estimates of the BMM Ltd. for 2010/11 which were endorsed by the Finance Committee at its 37<sup>th</sup> meeting held on 12 November 2009.

### **VIII. Key Performance Measures for HKPC (P.C. 32/2009)**

40. Invited by to report, introduced the paper and briefed Members on the proposal to rationalize the mechanism of performance indicators and the opportunity was also taken to enhance measurement in outcome in addition to the focus on output. After consolidation, a new set of 22 indicators would be adopted to measure HKPC's performance under the same KPMs on service delivery, operating efficiency, financial result and effectiveness. Details were under table 2 in paragraph 7 of the paper and the major changes made included the following:

- (a) the existing indicator of "studies on new technology development" under the item "industry sectors served" was replaced by the number of theme-based industry consultation organized under the Hong Kong Industry Network Cluster (HK-INC), as HKPC's industry support services had increasingly been done through platform synergization to identify industry needs and demands;
- (b) the number of conferences, exhibitions and seminars organized together with the participant number would be put under the KPM on "Service Delivery";
- (c) the number and value of training and consultancy projects would be

segregated and moved under the KPMs on “Service Delivery” and “Financial Result”; and

- (d) to enhance the measurement, in terms of outcome as opposed to output, of the effectiveness of HKPC’s consultancy service to clients, the item “training & consultancy projects” would be replaced by “outcome of consultancy projects” to be measured by the “percentage of customers reporting productivity increase”.

41.                    said that the targets for measuring HKPC’s performance in 2010/11 along the new performance indicators had been set, based on the financial estimates in the 2010/11 P&E and the actual performance of the relevant KPMs measured under the existing system in 2008/09. The targets were summarized in the addendum to the paper which was tabled at the meeting. Subject to Members’ agreement, the targets would be submitted with the 2010/11 P&E and the associated three-year forecast to the ITC for approval, in accordance with the MAA signed between HKPC and the ITC.

42. In reply to                    ,                    said that the targets were formulated from estimates by each operation units, hence they were not round-off figures.                    anticipated that the targets would be reviewed by the ITC and fine-tuning might be needed before they were formally approved by the ITC.

43. In reply to                    ,                    said that the targets were not academic guesstimates and they should reflect both the business strategy and market trend for specific HKPC activities. As such, the targets should not be viewed individually, for example, the falling number of projects did not necessarily mean that HKPC was doing less, as this could indicate increased involvement in niche markets and complex projects, especially where project revenue had not fallen.

44. In reply to                    ,                    explained that clients would be requested to advise whether there was productivity increase resulting from the agreed specific project deliverables. As such, clients would be invited to respond to specific, rather than general and generic, questions on the effectiveness of HKPC’s consultancy and the resulting productivity increase identified.

45.                    said that performance indicators based on the IC framework on how HKPC managed its human capital, structural capital and relation capital, as contained in the ICM report, should be introduced and combined with the other performance measures as one exercise. In response,                    said that HKPC would consider this in future, as the current

ICM report was only a first attempt by HKPC.

46. Members approved the new performance indicators under the KPMs for HKPC and supported the targets proposed for 2010/11 for submission to the ITC.

## **X. Any Other Business**

### **(A) Green Worklife Campaign**

52. Invited by \_\_\_\_\_, \_\_\_\_\_ reported the progress of the Green Worklife Campaign (GWC) which was launched in December 2008. For the period January-September 2009, the Campaign had achieved reduction in the consumption of electricity, water, printer cartridges, and printing paper. Together with the recycling of waste paper, the total savings achieved was slightly over \$230,000. To maintain the momentum of the campaign, 12 GWC ambassadors were appointed to promote green tips and the green way at the division level. Major GWC initiatives included green audit by division, energy audit of the HKPC Building and various energy saving measures such as the shutting down of escalators, putting computers on sleeping mode during lunch time, shortening the air-conditioning and lighting operation hours and the switching off of lights in the pantries and toilets. The campaign was well-received by staff and the Management would continue to encourage and sponsor the implementation of more green measures.

53. \_\_\_\_\_ said that the opportunity should be taken to promote HKPC's green measures to the community for education or business purposes.

54. Members noted the progress of HKPC's Green Worklife Campaign and that the Management would report major green initiatives to Council.

### **(B) Audit Reports on HKPC (P.C. 35/2009 tabled)**

55. Members noted paper P.C. 35/2009 tabled and agreed that:

- (a) on 25 November 2009, the Management would issue on behalf of Council the draft press release at Annex 1 of the paper on its general response to the Audit Report No. 53 on HKPC which would be tabled at the Legislative Council on the same day; and
- (b) the Line-to-take at Annex 2 of the paper should be used in all responses to media enquires after the Audit Report was tabled.

56. Members also supported the PR strategy whereby the Council Chairman and the Executive Director would be the chief spokesmen in respect of the Audit Report, and Members should refer all enquiries to the General Manager, Corporate Communications for central coordination to ensure consistencies in responses.

57. Members further agreed that paper P.C. 35/2009 should be circulated to all Council members after the meeting as some of them had left the meeting before this agenda item.

#### **(C) HKPC Annual Report 2008/09**

58. Members noted that the HKPC Annual Report for 2008/09 was tabled at the Legislative Council on 11 November 2009. Members also noted that the annual report included for the first time a separate booklet on the Intellectual Capital Statement of HKPC.

#### **(D) Attendance Record of Council Members**

59. Members noted their attendance record, tabled at the meeting, since their first appointment.

#### **(E) 2010 Meeting Schedule**

61. Members noted the proposed 2010 Council meeting schedule which was tabled at the meeting, as follows:

<b>Meeting</b>	<b>Date and Time</b>
113 <sup>th</sup> PC meeting	30 March 2010 (Tuesday) 2:30pm
114 <sup>th</sup> PC meeting	3 August 2010 (Tuesday) 2:30pm
115 <sup>th</sup> PC meeting	16 November 2010 (Tuesday) 2:30pm

62. Members noted that the Secretariat would stick to the schedule unless circumstances warranted the otherwise. In that event, the meetings would be scheduled within a period of one week before or after the original targeted dates to fit Members' schedules. In addition, Members also noted and agreed that if there would be joint meetings of Council and the Finance Committee in future, approval should be sought and justification be documented.

#### **XI. Date and Venue of Next Meeting**

63. It was agreed that the date of the next meeting was scheduled for 30 March 2010 at 2:30p.m. and the venue of the next meeting be left open.

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