

**Minutes of the 124th Meeting of the Hong Kong Productivity Council
held at 2:30p.m. on Friday, 29 November 2013 in the Board Room
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

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

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

Absent with Apologies: Ir Daniel Cheng Man-chung, MH, JP
Mr. Andrew Mak Yip-shing, JP

In Attendance from the Innovation and Technology Commission:

Mr. Frank Tsang

In Attendance from HKPC:

Mrs. Agnes Mak Tang Pik-ye, MH, JP	Executive Director
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Dennis Wu	General Manager, Corporate HR & Administration
Mr. Edmond Che	General Manager, Finance and Procurement
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Gillian Luk	Senior Manager, Council Secretariat

Confirmation of Minutes (P.C. 23/2013 Revised)

The Revised Minutes of the 123rd Council meeting held on 30 July 2013 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. Matter Arising

(A) Review of the “Lumped Approach” in Calculating the Pay Adjustment for Staff under Performance Pay System (PPS)

1. Invited by the Chairman to report, _____ said that at the last Council Meeting held on 30 July 2013, the Management was requested to review the lumped approach in calculating the annual pay adjustment for staff under the PPS. _____ said that the lumped approach had been adopted since the introduction of PPS in 2008. Under this approach, the annual pay adjustment was arrived at on the basis of the weighted average of projected salary adjustment drawn from the results of five market pay trend surveys and the Civil Service pay trend award. The Management had reviewed the situation and considered that:

- (a) the employee categorization of the market surveys did not exactly tie in with HKPC’s categorization, hence the benefit of further differentiating the population under each category of the surveys would be marginal, if not immaterial. Furthermore, the usual survey methodology of Hay Group covered only the total employee number without any categorization, rendering the move towards on par comparison impossible;
- (b) according to the survey companies, the employee categorization adopted by them could be reviewed on the basis of market situation from time to time, resulting in the merger of different categories as well as further differentiation within particular categories. For example, Towers Watson’s categorization was changed from five to six levels in 2013. As such, HKPC simply could not be assured of the continuity of categorization in the various market surveys from year to year even if they now matched those of HKPC’s; and
- (c) the overall population of each survey adopted in the formula under the lumped approach had already reflected the relative weight of that survey in the labour market.

In the light of the above considerations and, more importantly, taking account of the need to ensure objective pay review for the PPS staff (based on representativeness and consistency), it was the view of the Management that the

established methodology of the lumped approach should be maintained.

2. Members supported the Management's conclusion, which was also supported by the Staffing Committee at its 46th meeting held on 12 November 2013, that the present lumped approach should be maintained for calculating the annual pay adjustment for the PPS staff.

II. Programme and Estimates of HKPC for 2014/15 and Three-Year Forecast 2014/15-2016/17 of HKPC Income and Expenditure (P.C. 24/2013)

3. Invited by the Chairman, introduced the paper and said that the Three-year Forecast for 2014/15-2016/17, comprising the detailed Programme and Estimates (P&E) for 2014/15, was premised on the Three-year Strategic Plan approved by Council at its 123rd meeting held on 30 July 2013.

then briefed Members on the major initiatives undertaken and new initiatives being actively pursued under the four-pronged strategy which were set out in paragraphs 5, 6 and 7 of the paper. Separately, the preparation of the forecast and estimates had also been prepared with regard to collaboration with the ITF R&D Centres and quangoes, the need to conduct industry studies on specific sectors to understand the problems and issues faced by them and what would be required to address their present and emerging needs, and the pursuance of Mainland-Hong Kong technological collaboration to provide technical support to industry via the establishment of branch centres of PRC National Engineering Research Centres in Hong Kong. In terms of strategic marketing and enhanced client management, two marketing and industry support units had been established at the Technology Development Branch and the Business Innovation Branch to devise comprehensive marketing strategies that harnessed HKPC's multiple strengths to promote value-added, cross-disciplinary total solutions to different groups of clients. It was anticipated that the two units would drive the gainful horizontal alignment of HKPC's services for effective support to clients and facilitate HKPC to extend and deepen its reach to industry and strengthen our strategic partnership with the enterprises and the associations.

4. In terms of financial forecast, said that income and expenditure would increase by 9.9% and 6.5% respectively during the forecast period with the income and expenditure ratio rising from 68.4% to 70.6%. For the year 2014/15, the estimates for income and expenditure were HK\$384.1M and HK\$561.5M respectively, resulting in an income and expenditure ratio of 68.4% and a financial surplus of HK\$10M before depreciation and maintenance for the ERP system. Value added would continue to rise and an estimated 5% increase was forecasted.

5. In reply to , said that based on the 4%

vacancy for the established posts in the baseline forecast, the estimated provision for variable pay (VP) was also correspondingly reduced by 4%. In response, [redacted] said that full utilization of HKPC's approved establishment was not envisaged at a given point of time taking account of ongoing staff movements and the long time required to identify and recruit the right candidates, hence the Management had built in a 4% reduction to reflect the estimated vacancy rate. [redacted] pointed out that the budget provision for VP represented the upper limit of VP for a given year and the actual amount of VP to be distributed was subject to Council's approval. [redacted] said that the budget provision was for control purpose and HKPC had never distributed the full amount of the VP budget provision in the past.

6. In reply to [redacted], [redacted] said that a more aggressive business plan for the WFOEs had not been adopted as the focus was now on consolidation and new measures were being implemented to enhance their operation, especially on building up local project delivery capability and corporate governance. With the clear business strategy for the WFOEs supported by the Business Development Committee, the situation should improve and business opportunities would be optimized, both from the Mainland's public and private sectors. [redacted] stressed that success in business performance of the WFOEs in the long run could not be attained without effective localization to build up a strong project delivery capability for the WFOEs to interact closely and effectively with HKPC divisions as strategic partners.

7. In response to [redacted] enquiry, [redacted] said that under Lab Test One with the Hong Kong Science and Technology Parks Corporation (HKSTPC), one stop support would be provided on a wide range of testing facilities and professional technical services of HKSTPC and HKPC. It was envisaged that this initiative would drive shared facilities, promote collaboration and enhance business referrals between HKSTPC and HKPC. The focus was to create a cluster effect among the incubates and tenants of HKSTPC towards commercialization of technologies. The Lab Test One concept, where proven effective, could be considered for extension to the other R&D Centres and universities. On the subject of commercialization, [redacted] said that HKPC had, in discussion with the Innovation and Technology Commission (ITC), submitted a GSP proposal to review and short list R&D deliverables of ITF projects that were close to the market and suitable for commercialization. HKPC was also promoting the DB44 System on IP protection and management to address the emerging needs of the R&D Centres in commercialization. On the technology side, HKPC was collaborating with the Hong Kong Research Institute of Textiles and Apparel (HKRITA) on a landmark development project on waterless multi-functional industrial scale CO₂ supercritical fluid system for textile treatment. Separately, HKPC was also in discussion with the Nano and Advanced Materials Institute Limited (NAMI) and the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI) to

explore collaboration opportunities.

8. said that there was discussion at the last Finance Committee meeting with regard to the increase in the HKPC Building running cost and the Finance Committee noted that, as the HKPC Building was more than 20 years old, an increased budget provision was required to meet rising building maintenance and repair expenses. In response, said that HKPC had engaged a professional consultant to conduct an overall review on the conditions of the HKPC Building and to advise on the likely financial requirement for all the required works as well as critical repairs and improvement works that required priority attention in the next three years. In this connection, the Finance Committee noted and agreed with the Management that a staged approach was necessary taking into account affordability considerations and the impact of such expenses on HKPC's financial results. The cost of conducting the more critical and urgent work was estimated to be in the region of HK\$20M and it was initially planned to implement these urgent works in the next three years. It could take up to ten years to implement all the consultant's professional recommendations.

9. said that the HKPC Building was already 20 years old and major overhaul work and increased maintenance requirements should be anticipated. asked whether there was any standard government policy and procedures to handle such additional resource requirement for subvented organizations. In reply, said that such resource requirement should normally be incorporated into HKPC's annual estimates. HKPC could also consider utilizing its reserve to fund the necessary building maintenance and repair works but it would be prudent to take into account the impact of utilizing a sizeable reserve amount on HKPC's financial results. In response, said that it was important for HKPC to maintain financial well being at all times especially in the light of the VP system lest we would be seen by the public to be less than prudent in managing public funds even though HKPC's operation was not fully subvented. A staged approach focusing on the critical building repair and maintenance work first should perhaps be the best way forward.

10. With regard to HKPC's reserve, said that there should be a plan for it to be gainfully deployed for worthwhile purposes and it was also not advisable for HKPC to maintain an increasing reserve over time for obvious reasons. The Management and ITC should review and take a fundamental look at the issue.

11. After discussion, Members approved:

- (a) HKPC's Three-year Forecast for 2014/15 - 2016/17 as endorsed by the Finance Committee at its 49th meeting held on 18 November 2013;
- (b) the detailed Programme and Estimates of HKPC for 2014/15, as endorsed

by the Finance Committee at its 49th meeting held on 18 November 2013, which also included the overall staff establishment of 695 (including the APAS Division of which the establishment size was 33) endorsed by the Staffing Committee at its 46th meeting held on 12 November 2013; and

- (c) the proposed targets for the KPIs in 2014/15 at Appendix 3 of the paper for ITC's approval.

Separately, Members also noted the Three-year Forecast of the WFOEs for 2014/15 -2016/17 which did not form part of HKPC's income and expenditure forecast for the purpose of subvention requirement.

III. Utilization of Reserve (P.C. 25/2013)

12. Invited by the Chairman, introduced the paper and said that it was proposed to use HK\$5M from HKPC's reserve to procure a high precision 5-axis vertical machine to enhance the core competence of HKPC in higher degree precision polynomial and advanced freeform optics components machining. The aim was to provide one-stop consultancy service on advanced machining to manufacturers, especially SMEs, who now had to resort to overseas suppliers in the US, UK and Japan for service support which was undesirable as it would significantly increase both the product development cost and time, thereby undermining the competitiveness of these companies. Enhanced support in advanced machining services would also lower the technology entry barrier for Hong Kong manufacturers, especially SMEs, to develop their ODM/OBM business. The proposed facility would benefit various high precision and high value adding industry sectors with growth potential, in particular, the optics and automotive, biomedical devices and telecommunications and photonics sectors. Nine related trade and industry associations were supportive of HKPC's proposal and eight of them had already formalized their support in writing.

13. said that on the advice of the Business Development Committee, it had been ascertained that the proposed machine and related set up was not available in Hong Kong, and that the capacity of the proposed machine would cater to different job requirements for handling work pieces of different sizes to ensure a wide range of applications. The proposal was in accordance with the approved parameters for utilizing the reserve. It was anticipated that the cost of the machine would be recouped in six to seven years based on income from advanced freeform optics machining consultancy, estimated at HK\$0.5M to HK\$0.7M in the first two years, rising to around HK\$1.2M starting the third year.

14. said that it was important for the Management to strategize and select a suitable machine that would cater to a wide range of applications for

different industry sectors and products.

15. said that it was useful to match the life of a capital asset with the depreciation period rather than sticking to a fixed depreciation methodology. Such arrangement was also advisable accounting wise to accurately reflect the situation and the Management should consider whether a review of the policy was opportune. In response, said that HKPC's auditor had advised initially that an overall treatment was advisable as opposed to adopting different depreciation periods for different assets. The Management would seek the detailed advice of HKPC's auditor in due course.

17. Members approved the proposal, endorsed by the Finance Committee at its 49th meeting held on 18 November 2013, on the use of HK\$5M from HKPC's reserve for the procurement of a high precision 5-axis vertical machine to enhance HKPC's core competence for the provision of one-stop advance precision machining service for freeform surfaces to meet industry needs. In line with the present policy for a 5-year depreciation period for capital equipment, the Management would reflect the impact of this investment in the financial estimates of the forecast for the period for 2014/15 to 2016/17.

(Post-meeting note: Paper P.C. 24/2013 Revised incorporating the said impact was circulated to Members on 5 December 2013)

IV. Progress Report from the Audit Committee (P.C. 26/2013)

19. Members noted the report from the Audit Committee on matters considered at its 28th meeting held on 7 November 2013.

V. Progress Report from the Business Development Committee (P.C. 27/2013)

20. Members noted the report from the Business Development Committee on matters considered at its 52nd meeting held on 5 November 2013.

VI. Progress report from the Finance Committee (P.C. 28/2013)

21. Members noted the report from the Finance Committee on matters considered at its 49th meeting held on 18 November 2013.

VII. Progress Report from the Staffing Committee (P.C. 29/2013)

22. Members noted the report from the Staffing Committee on matters considered at its 46th meeting held on 12 November 2013.

VIII. Any Other Business

(B) Membership of the Executive Director on External Committees

26. Members noted that, in consultation with the Chairman, the Executive Director would continue to serve the following boards and committees:

Representing HKPC

- (a) Administration Committee of Innovation and Technology Scholarship Award Scheme 2014, Innovation and Technology Commission;
- (b) Advisory Committee on Start-up Development, OGCIO;
- (c) HKTDC Innovation and Technology Advisory Committee, HKTDC;
- (d) Pilot Green Transport Fund Steering Committee, Environment Bureau;
- (e) Hong Kong Council for Testing and Certification, Innovation and Technology Commission;
- (f) Professional Services Development Assistance Scheme, Commerce and Economic Development Bureau;
- (g) Fujian Hong Kong Economic Cooperation Promotion Committee; and
- (h) 重慶市科學技術研究院.

Personal Capacity

- (i) Science Faculty Advisory Committee, Hong Kong Baptist University;
- (j) Information & Communications Technology Industry Training Advisory Committee, Education Bureau;
- (k) Information and Communications Technology Industry Consultative Network, Employment Retraining Board; and
- (l) APICTA 2013 Organizing Committee and Judging Process, Hong Kong Computer Society.

(D) Attendance Record of Council Members

28. Members noted their attendance record in 2013 tabled at the meeting.

(E) 2014 Meeting Schedule

29. Members noted the proposed 2014 Council Meeting Schedule tabled at the meeting, as follows:

Meeting	Date and Time
125 th meeting	26 March 2014 (Wednesday) 2:30pm
126 th meeting	30 July 2014 (Wednesday) 2:30pm
127 th meeting	26 November 2014 (Wednesday) 2:30pm

XI. Date of Next Meeting

32. It was agreed that the date of the next meeting was scheduled for 26 March 2014 at 2:30pm.

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