

**Revised Minutes of the 113th Meeting of the Hong Kong Productivity Council
held at 2:30p.m. on Tuesday, 30 March 2010 in the Board Room
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

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

Members – Mr. Albert Au Siu-cheung
Prof. Cliff Chan Chok-ki
Mr. Choi Kam-wah
Dr. Fan Cheuk-hung
Mr. Jimmy Kwok, MH, JP
Miss Belinda Kwan (representing Ms. Maria Kwan, 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. Duncan Warren Pescod, JP
Dr. Elizabeth Shing, BBS, JP
Dr. The Hon. Samson Tam Wai-ho, JP
Ms. Marilyn Tang Yin-lee
Dr. Carrie Willis, SBS, JP
Mr. Alan Wong, JP
Miss Janet Wong, JP

Absent with Apologies: Dr. Raymond Chan, JP
Ir Daniel Cheng Man-chung, MH
Prof. Lee Wing-bun
Mr. Poon Siu-ping, MH

In Attendance from the Innovation and Technology Commission:

Mr. Andrew Lai
Mr. Davey Chung

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
Mr. Sam Law	General Manager, Finance
Mr. Jonathan Ho	General Manager, Corporate Communications

Welcome to New Members

The Chairman welcomed Mr. Albert Au, Mr. Andrew Mak, Dr. David Ng and Ms. Marilyn Tang who attended the meeting for the first time.

Vote of Appreciation

Members supported The Chairman's suggestion to record a vote of appreciation to Ms. Cheung Lai-ha, Mr. Cliff Sun Kai-lit and Dr. Daniel Yip for their contributions to HKPC during their tenure as Council Members. Members also supported to record a vote of appreciation to Mr. Duncan Pescod, who would be transferred out of the Commerce and Economic Development Bureau, for his contribution.

Confirmation of Minutes (P.C. 37/2009 Revised)

The Revised Minutes of the 112th Council meeting held on 17 November 2009 had been circulated to Members and there were no further requests for amendments. The Revised Minutes were taken as read, confirmed and signed by the Chairman.

I. Matters Arising

(A) Key Performance Measures for HKPC

1. Invited by the Chairman to report, _____ said that at the 112th Council meeting held on 17 November 2009, Members supported the new performance indicators under the Key Performance Measures (KPM) for HKPC and the performance targets proposed for 2010/11 for submission to the Innovation and Technology Commission (ITC). The indicators and targets were subsequently fine-tuned after discussion with ITC.

(B) Attendance Arrangement for Executive Director at Council Meetings

3. _____ said that while ED was not a member of Council, his attendance at Council meetings was a necessary and long standing arrangement to brief members on the proposals and issues submitted to Council, and to answer

questions from Council members. Attendance by the CEOs of quangos at meetings of their policy and advisory boards was indeed a common practice. In this connection, there was a concurrence of views between the Council and Committee Chairmen that ED should continue to attend Council meetings but would not speak unless invited by the Chairman to do so.

4. Members supported the attendance arrangement for ED at Council meetings as proposed by the Council and Committee Chairmen.

III. Report from the Staffing Committee (P.C. 4/2010)

8. was invited to report on behalf of who was unable to attend today's meeting. said that the Staffing Committee (SC) held its 35th meeting on 9 March 2010. The SC concurred that there would be considerable difficulties in getting agreement from all stakeholders concerned in the fundamental overhaul of HKPC's housing and other non-performance related allowances for conversion into a lump sum allowance, as recommended in the Hay Study Report. Taking account of the political and financial considerations, the SC agreed that Phase II recommendations of the Hay Study Report should not be taken forward for the time being.

11. said that the SC had also noted the following matters at its last meeting:

(a) the result of the 6th survey of the One-minute Staff Morale Index which attracted a response rate of 86% by staff with the highest satisfaction level recorded for "Work Aspects" areas (in this connection, the Management noted the advice of to gainfully explore the market potential of the Staff Morale Index model at a suitable time);

(d) a review would be undertaken on the recruitment procedure at the Branch Directors level to allow internal and external recruitment to be conducted simultaneously.

12. Members noted the current developments at the Staffing Committee and approved the proposals that:

(a) the fundamental overhaul of housing and other non-performance related allowances for conversion into a lump sum allowance as recommended by the Hay Group should not be taken forward for the time being; and

IV. Report from the Business Development Committee (P.C. 3/2010)

13. said that the Business Development Committee (BDC) held its 41st meeting on 16 March 2010. During the meeting, the BDC endorsed for Council's approval a proposal to replace the Do and Don't List by an HKPC Services Audit Statement and the recommendations of a strategic review of the long-term sustainability of the 3 WFOEs in the PRD.

14. With regard to the Do and Don't List, said that the BDC agreed with the Management's observation that the nomenclature of the List conveyed an erroneous impression that HKPC had engaged on an on-going basis in areas that were beyond its remit. As such, the BDC endorsed the proposal to replace the Do and Don't List by the HKPC Services Audit Statement at Appendix 2 of the paper which set out the basis of services that HKPC should engage in and the "Underlying Principles", together with an annual exit programme of services that HKPC should refrain from providing. The Statement would be reviewed by BDC annually for updating to reflect the prevailing market circumstances.

15. With regard to the Strategic Review of the Sustainability of the Wholly Foreign Owned Enterprises (WFOEs), said that the BDC agreed that there were tremendous needs for HKPC's services in the PRD and WFOEs should continue to be an industrial marketer and integrator for implementing the services of HKPC by acting as a service platform to support Hong Kong industries in the Mainland. The BDC also agreed that the current business model of WFOEs was suitable and sustainable based on the strategy to capitalize on their complementary roles, so that HKPC could effectively springboard its services to companies in the PRD. Based on this premise, it was envisaged that

WFOEs would continue to enhance their sustainability in the long term through building up extensive marketing and clientele base through platform programmes such as CP3/TURN, developing new competencies in selected areas through such platform programmes, and teaming up with Hong Kong strategic partners through the platform programmes to provide more value-added services.

16. said that while noting the improved financial performance of the WFOEs, the BDC was of the view that the full cost recovery requirement in the HKPC Ordinance should be reviewed by the Government as a matter of urgency to help enhance the sustainability of the WFOEs in the long term.

17. In terms of the development of new business initiatives, said that the BDC discussed and supported the Management's proposal to:

- (a) establish a Chemical Extraction and Processing Laboratory to modernize the local food additive & supplement, cosmetic and household & personal hygiene industries;
- (b) establish a Mechanical Watch Movement Development Centre to help the local watch manufacturing industry deal with the supply chain gap and develop local capability in designing and manufacturing quality mechanical watch movements; and
- (c) develop a Hong Kong Voluntary Carbon Offset System (HKVCOS) to encourage Hong Kong and PRC organizations/companies to actively implement measures to reduce greenhouse gas emission.

18. Separately, the BDC noted:

- (a) HKPC's involvement in an ERB Manpower Developer Scheme to recognize organizations' outstanding accomplishments in manpower development;
- (b) the progress of the Quality Automotive Services Scheme (QASS);
- (d) HKPC's involvement in government funding schemes and the interim and final performance review of 8 completed ITF projects.

19. Invited by Chairman to reply to the enquiry of , said that with regard to HKPC's withdrawal from the services identified for exit in the next three years, the financial impact on HKPC would be minimal as these services were not generating revenue for HKPC on any material scale. The

BDC had been fully briefed on the financial impact of the planned exit via an information paper (BDC 8/2010) circulated after the last BDC meeting.

20. Members noted the current developments at the Business Development Committee and approved:

- (a) the adoption of the “HKPC Services Audit Statement” to replace the “Do and Don’t List”; and
- (b) the recommendations of the strategic review of the long-term sustainability and operation of the 3 WFOEs in the PRD.

V. Report from the Finance Committee (P.C. 5/2010)

21. _____ said that the Finance Committee (FC) held its 38th meeting on 23 March 2010 and noted the following matters:

- (a) the strategy adopted to improve the Project Management System to address the recommendations of the Director of Audit;
- (b) the financial performance of HKPC for April-December 2009;
- (c) the quarterly report on investment of HKPC’s funds with a cash balance of \$131M as at 31 December 2009 and bank interest income of \$0.22M representing an average return rate of 0.24%; and
- (d) the proposal to Council to expand the terms of reference of the FC which would be discussed under Agenda Item VIII of today’s meeting.

22. Separately, the FC also endorsed for Council’s approval:

- (a) the standard staff cost rates (L1, L2, L3 and L8) for 2010/11 which had been adjusted based on the annual salary adjustment and the amount of overhead cost attributable to project activities as detailed in paragraphs 10 – 12 of the paper;
- (b) the proposed retention of the dining membership of the Yau Yat Chuen Garden City Club;
- (c) the recommendation that HKPC should not recover the undercharged services fees from the WFOEs and SZJV; and

23. On HKPC's dining Membership of Yau Yat Chuen Garden City Club (YYC), said that FC's endorsement to retain the dining membership was based on 2 main considerations. Firstly, YYC was the only clubhouse in the vicinity that could provide a suitable dining environment at reasonable prices. The annual membership fee had remained at HK\$15,000 for 13 years and would remain unchanged for 2010/11. Based on the number of 216 eligible staff as at December 2009, the membership fee was no more than HK\$6 per staff per month. Secondly, apart from official entertainment paid by HKPC, 240 business-related functions were held at the Club in 2009 which did not involve payment on the part of HKPC. In addition, the Club had also provided a good venue at reasonable prices for staff communication activities, such as Table for Ten hosted by the Directors, and frequent cross-division lunches, on self-paying basis by staff.

24. said that at the public hearings held by the Public Accounts Committee (PAC) of the Legislative Council on the Director of Audit's report on HKPC, there were suggestions that HKPC should document the usage of the YYC. The FC considered the suggestion carefully but agreed that keeping a log on official activities held at the YYC would involve considerable administrative resources as accuracy needed to be ensured which would in turn create tedious and costly administrative processes. In this connection, the FC supported the proposal for the Management to conduct a year-end survey on the YYC's utilization before the annual membership renewal.

25. declared interest as was a member of the YYC Executive Committee. By way of background, said that the dining membership at \$15,000 a year only entitled HKPC to use the YYC's dining facilities on weekdays only. It was important to correct any misconception that HKPC's membership would provide its staff full access to the Club's recreational facilities.

26. said that the YYC provided a reasonably priced venue for HKPC's business and staff activities. The cost differential of holding just a few of these activities in other dining establishments with suitable environment would far exceed the annual membership fee. This being the case, said that there was no need to keep an official log as it was both unnecessary and costly to do so. In this connection, also expressed reservation on the need to conduct year end surveys at all. In agreement, said that the City University of Hong Kong also had a dining membership with the YYC and there was no log being kept on the university's usage of the YYC. Meanwhile, suggested that HKPC should explore with the YYC on the feasibility of a membership waiver.

(Post-meeting note: The YYC was contacted after the meeting and advised that they had already stopped issuing dining membership and would not entertain any request for membership waiver as the rate of utilization of the YYC was high.)

27. With regard to the recovery of undercharged services fees from the WFOEs and SZJV, _____ said that the FC concurred that there was simply not any valid contractual basis for HKPC to charge WFOEs retrospectively on projects already undertaken by them. There were also technical difficulties for recovery of the undercharged amount as remittance of the undercharged amount from the Mainland to Hong Kong had to be supported by relevant contracts of the projects undertaken. But no such contracts were available as the projects concerned had been completed.

28. _____ said that it was HKPC's mandate to provide support to Hong Kong companies irrespective of whether they were operating in Hong Kong or the PRD. The adoption of different and higher pricing for services to Hong Kong companies in the PRD lacked both reason and support. There was urgency to address this issue for HKPC to provide effective support to help Hong Kong companies, especially the SMEs, upgrade and transform their operations in the PRD.

29. In response, _____ said that HKPC was subject to the full cost recovery requirement under the HKPC Ordinance for its activities conducted outside Hong Kong. Council had discussed the matter in November 2009 and, faced with the need for compliance, abolished the L4 rate for the WFOEs which was about 50% lower than the rate for full cost recovery at L3. _____ said that the full cost recovery requirement was seriously out of date and urged the Government to speed up the review of the HKPC Ordinance. In this connection, _____ said that there were also views from the PAC that if the full cost recovery requirement had fallen out of steps with the needs of Hong Kong industries which mostly maintained their operations in the PRD, the requirement should be reviewed to enable HKPC to provide the needed support without risking noncompliance.

37. Members noted the current developments at the Finance Committee and approved:

- (a) the new standard staff cost rates for 2010/11;
- (b) the retention of the membership of YYC when the current agreement expired on 30 April 2010;
- (c) the recommendation that HKPC should not recover the undercharged amount from the WFOEs and SZJV; and

VI. Final Report on TURN Pilot Programme and Update on the Development of TURN Related Programmes (P.C. 6/2010)

38. Invited by the Chairman to report, briefed Members on the completion of the 18-month TURN pilot programme initiated by HKPC to help Hong Kong manufacturers transform, upgrade and relocate and invited Members to note the highlights and achievements of the programme summarized in paragraphs 3 – 5 of the paper.

39. then informed Members that, based on the success of TURN, the Guangdong Province and its PRD Municipalities had set up similar funding support programmes. In this connection, HKPC had reached agreement with the municipal governments of Shenzhen, Dongguan, Zhongshan, Huizhou and Zhuhai for funding support to assist Hong Kong enterprises in the PRD to transform and upgrade. The total funding committed by these five municipal governments amounted to more than RMB 60M. Meanwhile, according to industry feedback on the TURN pilot programme, there was a clear industry view for what would augment the present on-site assessment initiative as a complete enterprise assessment and improvement assistance programme. As such, HKPC had been discussing with the Commerce and Economic Development Bureau (CEDB) on a follow-up proposal for a TURN Extension Programme (TURN II). The objective of TURN II was to provide continuation support to Hong Kong manufacturers on their upgrading and transformation journey, to create success stories for demonstration and to disseminate the lessons learnt.

40. Members noted the final report of the TURN Pilot Programme, and the development of TURN related and extension programmes.

VII. Strategic Plan (P.C. 7/2010)

41. Invited by the Chairman to report, introduced the paper and said that in April 2009, Council reviewed the implementation of the five-year plan, which was completed in 2008/09, and agreed that there was no need to prepare another strategic plan. However, the Director of Audit recommended that for good corporate governance, the strategic plan should continue to be prepared and the progress of implementation should be reported to Council regularly. In this connection, the Management had revisited the need for a strategic plan and was of the view that the considerations underlying the Council's decision in April 2009 remained largely valid because:

- (a) the "Three-year Forecast" prepared alongside the annual "Programme and Estimates" already set out the programme and activities in the coming three years;
- (b) under the rapidly changing business environment, there were practical difficulties in trying to cater for the needs of industries five years in advance; and
- (c) the frequent consultation with ITC, the various Chairmen and Council Committees since 2007 would continue to help HKPC respond more proactively to the rapid changes in the operating environment.

42. said that, to address AC's recommendation, it was proposed that before Council considered the Three-year Forecast, HKPC would submit a three-year strategic plan for the same period. The strategic plan would be presented to Council in July/August each year in the form of broad strategic statements aiming to highlight the challenges, opportunities and the new initiatives under planning in the coming three years. Subject to Council's approval of the strategic plan, it would be reflected, as far as practicable, in the Three-year Forecast which would set out in detail the targets, programmes and resource input in pursuit of the strategic plan. It was proposed that the three-year strategic planning cycle should start in 2011/12 and would be updated on a three-year rolling basis for Council's review annually.

43. Members approved the proposed three-year strategic planning process as outlined in paragraph 9 of the paper.

VIII. Terms of Reference of the Finance Committee (P.C. 8/2010)

44. Invited by the Chairman to report, introduced the paper and said that the Terms of Reference (TOR) of the Finance Committee were largely advisory in nature except that the Committee had the power to approve the Three-year Forecast. At the public hearings of the PAC on the Director of

Audit's report on HKPC, it was suggested that the TOR of the Finance Committee should be expanded to cover matters such as procurement and fixed assets, which were not under the remit of any of the existing Standing Committees. The Management considered this suggestion and agreed that this should serve to enhance the corporate governance of Council. As such, it was proposed to:

- (a) expand the TOR of the Finance Committee for the Committee to approve major changes to HKPC's procurement, building management and fixed asset management policies;
- (b) strengthen the TOR by specifying more clearly that the Finance Committee may determine the charging levels of HKPC's services; and
- (c) include a "catch all" provision that the Finance Committee may advise Council on matters that have a significant financial impact on HKPC.

45. said that while the ITC supported the proposed amendments to the TOR of the FC in general, the opportunity should be taken to review if the approval of certain matters, such as the Three-year Forecast, should be under the purview of the FC or Council.

46. Invited by the Chairman, said that the delegation of certain approval functions to the FC would not only enhance its substantive functions but would also facilitate the effective performance of Council's functions.

 said that to vest all approval functions with Council was of course appropriate but this would not contribute to the most effective performance of Council's functions and would also likely give rise to red tapes preventing timely decisions. If the approval functions of the FC were to be removed, it would also be necessary to do the same for the other Standing Committees.

47. echoed the views of and said that it was simply not practical for Council to deliberate and approve each and every changes and proposals. However, said that it would be useful for the Management to review and define what would constitute "major changes" as referred to in the revised TOR.

48. After discussion, Members agreed to the spirit of the proposed amendments to the TOR of the FC. It was also agreed that the Management should consider Members' comments and circulate further amendments, if any, to the TOR of the FC for Council's approval.

IX. Appointment of Mentors for ITF Projects (P.C. 9/2010)

49. Members were briefed by and agreed to:

- (a) the appointment of Mr. Lo Foo-cheung as mentor for a newly approved project initiated by HKPC, namely “Development of a Liquid Silicone Rubber (LSR) Injection Moulding Machine and Over-moulding System for Manufacturing Health Care and Medical Products” which was approved under ITF for \$3.4M; and
- (b) the appointment of Mr. Jimmy Kwok as mentor for an on-going ITF project “Development of a Low Cost High Precision 5 Axes CNC Machining System to Enhance the Production Quality of Watch and Eyewear Critical Components” as the previous mentor, Dr. Daniel Yip, was no longer a Council member.

XI. Any Other Business

(A) Appointment of Ms. Marilyn Tang to the Staffing Committee

54. proposed, and Members agreed, to appoint Ms. Marilyn Tang to be a member of the Staffing Committee.

(B) 滙智營商 Programme

55. Invited by the Chairman to report, briefed Members on the 滙智營商 programme which would be launched in April 2010. HSBC was the sole sponsor of the programme while Now TV and HKPC were the media partner and implementation agent respectively. The aim of the programme was to provide local SMEs with professional expertise and market information to help them take advantage of the opportunities in Asia’s recovering economy. The programme was scheduled to run from April to October this year and would include:

- (a) a 12-episode TV information series on Now TV (Channel 333) featuring case studies and expert advice on ways to achieve business success;
- (b) free consultancy services to SMEs by HKPC consultants and its strategic partners with tailored solutions on the topics covered by the TV information series; and

- (c) an SME Summit which will be held in August where government officials, prominent industrialists, economists and business leaders would share their views on running a small business in Hong Kong.

56. thanked the Management for the innovative initiative to extend support to SMEs and invited Members to tune in to the TV information series which would be aired every Thursday beginning April 2010.

(C) Revamped HKPC Website

57. Invited by the Chairman to report, presented the revamped HKPC website to Members. Apart from updating the outlook design and adopting improvements to enhance navigation, the revamped HKPC website would make generous use of Web 2.0 and multimedia content (including Facebook, Twitter, Flickr, YouTube and Wikipedia) to enhance connectivity and increase HKPC's public exposure and marketing opportunities. The new website was developed by HKPC's in-house experts using open source (OSS) applications. As this website was developed in-house, timely updating and maintenance would be ensured without extra cost. The revamped website was scheduled for official launch on 1 April 2010 and it would make HKPC one of the first organizations in Hong Kong to use Web 2.0 social networking to promote their activities and business. said that the revamped website was currently in parallel run with the existing website and invited Members to login to have a first hand experience of the new website. Members noted.

(D) Space Utilization

58. Invited by the Chairman to report, briefed Members on the space utilization plan for the next 2 years which had been formulated in response to the recommendations of the Director of Audit to optimize space utilization in the HKPC Building, and to make preparation for the accommodation requirement of the new business initiatives endorsed by the BDC. The plan would be implemented in two phases. Phase I would include the following changes which would be implemented within 2010:

- (a) renovation of the Innovation Gallery on LG1 which would involve the creation of a new EMC Chamber;
- (b) conversion of the HKCERT, media room and the Productivity Gallery on G/F into an SME IT Support Centre - Cyber Security;
- (c) rationalization of office space on 2/F to release space for industry networking through licensee arrangement based on the Centrepoint model;

and;

- (d) creation of the Mechanical Watch Movement Technology Centre and the Reliability Testing Centre on 5/F.

As for phase II of the plan, said that it would involve the conversion of the present CEPA Centre on 5/F into the proposed Chemical Processing and Extraction Laboratory. Suitable use of the Terrace on the same floor would also be explored.

59. said that these space planning initiatives would enable HKPC to respond to demands for better use of the HKPC Building to promote and support its activities. Funding for the phase 1 works would be provided for from HKPC's 2010/11 budget. As regards phase II, funding for the required works would need to be identified separately. said that Members would be kept posted of the progress of the space utilization plan.

(E) Blue Print for the Testing and Certification Sector

60. said that the testing and certification sector had been identified by the Task Force on Economic Challenges as one of six major economic areas for development. The Hong Kong Council for Testing and Certification had been set up to develop the blueprint to take forward this sector and a report on this would be issued on 31 March 2010. HKPC's work and experience were relevant to the testing and certification sector and had provided valuable contribution to the Hong Kong Council for Testing and Certification so far. said that the ITC would report to Council on how HKPC would be gainfully engaged on this new strategy agenda in conjunction with ITC.

(F) R&D Centres

61. said that the Government was requested by the Legislative Council to conduct a review on the cost-effectiveness and achievements of the R&D Centres created under the ITF including commercialization of their research deliverables. In this connection, the ITC had conducted brainstorming sessions with the various stakeholders. said that there was definite room for collaboration between HKPC and the R&D centres, especially over commercialization and industry networking to market their research deliverables. The ITC would present a paper on the review to the Boards of the R&D centres, including APAS. In response, said that HKPC had been driving the same agenda and had also met the Chairmen of the R&D centres on how HKPC could support them to commercialize their research deliverables both locally and in the PRD.

62. said that the ITC was also looking at promoting the R&D centres and its research deliverables in the PRD and would explore the opportunities for support from the WFOEs of HKPC. In response, said that, to increase understanding of the WFOEs' work, the Management should consider arranging a visit to the WFOEs for Members and ITC at a convenient time.

(G) Attendance Record

63. Members noted their attendance record in 2009 tabled at the meeting.

XII. Date and Venue of Next Meeting

64. The next meeting was tentatively scheduled on 3 August 2010 at 2:30pm and it was agreed that the venue of the next meeting be left open.