

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

F.C. 10/2009

P.C. 25/2009

Minutes of the 36th Meeting of the Finance Committee and the 111th Meeting of the Hong Kong Productivity Council held concurrently at 9:30a.m. on Tuesday, 21 July 2009 in the Board Room 2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon

Finance Committee

Present:

Chairman – Mr. Clement Chen, BBS, JP

Members – Mrs. Helen Chan, JP
Mr. Wilson Fung
Mr. Andrew Lai
Prof. Lee Wing-bun
Dr. The Hon. Samson Tam
Wai-ho, JP

Hong Kong Productivity Council

Chairman – Mr. Clement Chen, BBS, JP

Members – Prof. Cliff Chan
Mr. Eddy Chan, JP
Mrs. Helen Chan, JP
Dr. Raymond Chan, JP
Ms. Cheung Lai-ha
Mr. Choi Kam-wah
Dr. Fan Cheuk-hung
Miss Belinda Kwan
(representing Mr. Joseph Lai)
Mr. Jimmy Kwok, MH, JP
Prof. Lee Wing-bun
Mr. Lo Foo-cheung, JP
Mr. Victor Ng
Mr. Duncan Warren Pescod, JP
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:

Prof. Tuan Chyau

In Attendance from the Innovation and Technology Commission:

Mr. Andrew Lai, JP
Mr. Davey Chung

In Attendance from HKPC:

Mr. Wilson Fung	Executive Director
Dr. Stephen Lee	Director, Technology Development
Mr. Edmund Sung	Director, Business Consulting
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

The Chairman said that the 36th Finance Committee meeting and the 111th Council meeting were held concurrently to fit in Members' schedule.

Confirmation of Minutes (F.C. 5/2009 and P.C. 11/2009)

The Minutes of the 35th Finance Committee meeting and the 110th Council Meeting held concurrently on 8 April 2009 had been circulated to Members and there were no requests for amendments. The Minutes were taken as read, confirmed and signed by the Chairman.

I. Matters Arising

(A) Hong Kong Industry Network Clusters (HK-INC)

1. said that at the 108th Council meeting held on 4 September 2008, it was agreed to set up the Hong Kong Industry Network Clusters (HK-INC) as a structured, but informal, industry consultation platform. It was also agreed that designated Council Members should be appointed as Advisors for each of the 8 Industry Clusters. Following changes in Council membership on 1 January 2009, the structure of HK-INC had been reviewed. The networking and consultation activities under the HK-INC would be conducted on theme-basis to exchange views with industry practitioners and associations on contemporary issues identified from time to time. Council Members with involvement in the relevant fields would be invited to join the meetings, instead of being the advisors of specific Industry Clusters. said that the launching ceremony of the HK-INC cum the first consultation session on the theme of PRC domestic sales was held on 30 June 2009 at the Terrace on the 4/F of the HKPC Building. Based on the views exchanged, HKPC had submitted a proposal to the SME Development Fund on a one-year support programme to help SMEs create and strengthen capabilities to capture the PRC domestic sales opportunities.

III. Report from the Business Development Committee (P.C. 13/2009)

5. Separately, _____ said that the BDC had also noted the following matters:

- (a) progress of the Quality Elderly Service Scheme (QESS) and the Intellectual Capital Management (ICM) pilot project;
- (b) progress of the Cleaner Production Partnership Programme for which 18% of the \$93.06M allocated for the 5-year Programme was committed as at 31 March 2009;
- (c) progress of TURN including the setting up of a Support Centre in the Shenzhen Productivity Foundation to deliver TURN services in the PRD, and a follow-up proposal, based on a clear industry need for demonstration projects, on a TURN Extension Programme (TURN II) which was submitted to the Commerce and Economic Development Bureau in June 2009;
- (d) activities under HKPC's corporate communication strategy in 2009, including a weekly segment 「創富生產力」 and a 10-part series 「星級企業·升級檔案」 launched on NOW TV; a discussion forum titled 「企業峰會：升級轉型攻略」 held on 6 June 2009; a 5-minute “voice clip” by HKPC on the latest global technology trends on RTHK 1; a “Free Clinic” consultation service for SMEs on financing problems faced by them; and marketing services to the Hong Kong Design Centre; and
- (e) the interim and final performance review of 5 completed ITF projects.

8. Members noted the latest progress at the Business Development Committee.

IV. Report from the Staffing Committee (P.C. 14/2009)

9. _____ introduced the paper and said that at its 33rd meeting held on 14 July 2009, the Staffing Committee (SC) approved the recommendation of the Hay Group Hong Kong on HKPC's pay scheme for its Directorate grade staff, and the 2009/10 pay adjustment for non-PPS and PPS staff.

10. With regard to the Hay Report, _____ said that all the SC Members, with the exception of _____, agreed to endorse for Council's approval a proposal for HKPC to adopt a 2-stage approach to implement the recommendations of the Hay Report, first by extending variable pay to the Directorate grade staff in 2010, followed by an overall review and modernization of HKPC's non-performance based fringe benefits across the board in 2011. In this connection, _____ said that the eight members agreed that their endorsement was given after taking into account the following considerations:

- (a) all the Directorate grade staff had already joined the Performance Pay Scheme (PPS) in 2007 but had agreed to be excluded from variable pay so as not to create the misunderstanding that the PPS was created to benefit senior executives; hence the extension of variable pay to the Directorate staff was actually a delayed provision of what was a central pay component of the PPS;
- (b) variable pay was a one-off discretionary pay without any recurrent implication. The award or otherwise of variable pay would depend on the financial situation of HKPC in a given year and therefore eligibility for variable pay was not equivalent to guaranteed annual award; and
- (c) the 2-stage approach would be easier to get buy-in from the Directorate grade staff without affecting their existing entitlement to fringe benefits and it would also allow the Management more time to validate the feasibility of the modernization of fringe benefits across the board to bring out the full merits of the changes in the pay system before deciding on the next steps.

11. On a separate but related issue, _____ said that all the SC Members, with the exception of _____, had also agreed to endorse for Council's approval a proposal for pay adjustment for staff under the PPS, comprising salary reduction for top and senior level staff at 1.38% and 1.37% respectively, and salary increase for middle and general staff at 1.19% and 1.12% respectively. The proposal was based on a salary adjustment mechanism adopted by the SC and Council, comprising four pay trend surveys in the market and the pay trend award of the Civil Service. Separately, all SC Members endorsed for Council's approval the proposed pay adjustment for non-PPS staff in line with the Civil Service pay reduction of 5.38% for top and senior level staff and a pay freeze for the middle and general level staff.

12. _____ said that to ensure smooth implementation, the SC agreed that:

- (a) the rationale for salary adjustment should be explained clearly to staff

members;

- (b) in the event of staff refusal to accept a salary reduction offer, HKPC should try to seek their understanding through counseling; however, where termination of employer-employee relation should become unavoidable, compensation issues should be dealt with strictly in accordance with the Employment Ordinance; and
- (c) for easy administration, the 2009/10 pay adjustment for both pay scales (PPS and non-PPS) would take effect from the first day of the following month after the relevant legislation was passed by the Legislative Council.

13. Referring to the Hay Report, _____ said that Hay's recommendation on a two-stage approach was reasonable. However, the extension of variable pay to the Directorate grade staff under the present economic situation, and against the background of proposed Civil Service pay reduction/freeze, would likely create negative public reaction. In the same consideration, the proposal for salary increase for the middle and general level staff under the PPS would also risk inviting criticism given HKPC's subvented status. As such, _____ had to reserve the Government's position on both of these proposals.

14. In response, _____ said that the political consideration was well understood. Therefore, the present proposal did not involve any upward adjustment in the pay scale of the Directorate grade staff despite Hay's conclusion that the total cash compensation packages for them was below the market. The proposed extension of variable pay to the Directorate grade staff was indeed a much delayed move to formalize the eligibility of these senior executives for variable pay which was a central feature of the PPS which they had opted for in 2007. This was also an important move to address the issue of internal relativity in compensation as HKPC progressively embraced a performance driven culture and compensation system. As regard the proposed pay adjustment for PPS staff, _____ said that the proposal was drawn up in accordance with the mechanism for pay adjustment calculation endorsed by Council and supported by the Joint Consultative Committee (JCC). In this connection, the proposed small pay increase for the middle and general level staff was not out of touch with the market considering that some public organizations, like the MTRC, was offering pay rise across the board for all staff.

15. _____ said that HKPC's pay system, including the established pay adjustment mechanism, was adopted by Council and should be respected. Meanwhile, the political consideration should not be overlooked and public reaction should be carefully managed. _____ said that in the event of Council approval of the pay increase for the middle and general level staff under the PPS,

deliberated by the SC in detail. With regard to the variable pay proposal, there was no laudable reason, having due regard to the need for equity and internal relativity in compensation for all staff, to continue to withhold what was a central feature of the PPS which all the Directorate grade staff had opted for 2 years ago. On the pay increase for junior staff under the PPS, the endorsement of the SC was based on the need to honour the contract spirit and follow the adopted pay adjustment mechanism which was supported by staff through consultation with the JCC.

22. In reply to _____, _____ said that a saving in staff cost of around HK\$0.3M would result from implementing the proposed pay adjustment for the PPS and non-PPS staff, comprising a saving of \$0.44M from non-PPS staff and an additional staff cost of \$0.14M for PPS staff.

23. After discussion, Members, with the exception of _____ and _____, approved:

- (a) the proposal to implement the recommendations of the Hay Group Hong Kong on HKPC's pay scheme for its Directorate grade staff by a 2-stage approach, first by extending the variable pay to the Directorate grade staff in 2010, followed by an overall review and modernization of HKPC's non-performance based fringe benefits across the board in 2011; and
- (b) the proposed 2009/10 pay adjustment for non-PPS and PPS staff (paragraphs 5 and 7 of paper P.C. 14/2009) which would take effect from the first day of the following month after the relevant legislation was passed by the Legislative Council.

24. _____ said that the proposals would be submitted to the Government for approval and the Management should meanwhile make the necessary preparation to respond to the media, with a clear focus on the policy and system aspect supporting the proposals and the positive financial impact of the proposals on HKPC's accounts.

25. Invited by _____, _____ continued with his report and said that the SC also endorsed for Council's approval the introduction of a Corporate Leave Scheme from 2010 onwards to complement the present administrative measure to encourage staff to take leave orderly to reduce the number of accumulated leave days. Under the proposal, no more than four days in a year would be set as corporate leave days on the days following big festivals, such as the Chinese New Year. Major impact on HKPC's services to its clients was not anticipated as there would normally be little business activities immediately after big festivals and skeleton staff would be maintained during the leave days. Corporate Leave would be carried out on a voluntary basis. Specifically, it was not applicable to staff joining HKPC after 1

December 2003 and staff who had accumulated less than 20 days of annual leave. However, such staff would also be welcomed to take corporate leave to fit their respective leave plans.

26. Members approved the proposal to introduce the voluntary Corporate Leave Scheme from 2010 onwards.

27. Separately, _____ said that the SC also noted the following matters:

(a) the progress of implementing the recommendations of the PwC and AON Studies;

(b) the staffing position of HKPC as at 31 May 2009;

(d) a new Standard Practice on declaration of investment by the Executive Director and Branch Directors, under which the declaration by the Executive Director should be reviewed by the Chairman and Deputy Chairman, then filed with the Council Secretariat and made available for Members' review upon request; and

29. Members noted the latest developments at the Staffing Committee.

V. Annual Review of HKPC Activities in 2008/09 (P.C. 15/2009)

30. Invited by _____ to report, _____ said that as stipulated in the Memorandum of Administrative Arrangements between the Government and HKPC in 2003, the Key Performance Measures (KPMs) for HKPC should be in the areas of Service Delivery, Operating Efficiency, Financial Results and Effectiveness. HKPC's performance in 2008/09 in the first three areas, along 10 indicators recommended by the SQW Consultancy Study, was reported in paragraphs 4-6 of the paper. For the fourth area to measure HKPC's effectiveness, the model was finetuned at the 108th Council meeting held on 4 September 2008. Under this finetuned model, HKPC's performance was measured by 2 performance indicators at the industry level and 4 indicators at the enterprises level. HKPC's effectiveness at the industry and enterprise level was reported in paragraph 7 of the paper.

31. After discussion, Members approved the 2008/09 Annual Review.

VI. Annual Accounts for the Year 2008/09 (F.C. 6/2009 & P.C. 16/2009)

32. Invited by _____ to report, _____ introduced the paper and said that total fees and services income for 2008/09 amounted to \$291.88M which was below the budget by \$10.15M (or 3.36%). Total expenditure amounted to \$468.04M which was \$19.73M (or 4.04%) less than the budget of \$487.77M. Total surplus for the year came to \$9.58M, comprising capital subvention deficit of \$9.1M and revenue subvention surplus of \$18.68M. The accounts were reviewed by the Audit Committee at its 12th meeting held on 15 July 2009 and no major adverse comment was made.

33. After discussion, Members approved the Annual Accounts of HKPC for 2008/09 and the transfers under Section 16(4)(b) of the HKPC Ordinance.

VII. Financial Performance for the First Quarter of 2009/10 (F.C. 7/2009)

34. Invited by _____ to report, _____ introduced the paper and said that for the first quarter of 2009/10, HKPC's total fee income was less than the budget by \$0.09M or 0.13%. Total expenditure was \$105.77M, or 17.29% less than the budget. This was mainly due to savings in staff emolument, capital expenditure and recurrent expenditure. Total surplus for April to June 2009 amounted to \$17.56M comprising capital subvention surplus of \$4.42M and revenue subvention surplus of \$13.14M. During the report period, all the three branches recorded budget surpluses. Medical expenses came to \$1.28M in the first 3 months of 2009/10. This was lower than the budget by \$0.83M or by 39.49%. Separately, it was encouraging to see that provision for staff annual leave was reduced by 4.17% from \$29.64M in June 2008 to \$28.41M in June 2009. During the same period, the number of staff annual leave days with financial implication had also been reduced from 18,893 to 16,941 or by 10.33%.

35. Members noted the financial performance of HKPC and its three branches for the first quarter of 2009/10.

VIII. Quarterly Report on Investment of HKPC's Funds for 2008/09 (F.C. 8/2009)

36. Invited by _____ to report, _____ introduced the paper and said that as at 31 March 2009, HKPC's cash balance was \$124M. Under the existing investment strategy, all of HKPC's funds were placed in time deposits or savings accounts. During 2008/09, about 54% of cash was placed in _____, 35% in _____ and 11% in _____. The actual bank interest income earned by HKPC during the year was \$1.4M, representing an average return rate of

1.4%. This was higher than the 0.26% average interest rate for savings accounts offered by major banks in Hong Kong.

37. Members noted the cash balance and treasury investment activities of HKPC as at 31 March 2009.

IX. Appointment of Mentors for ITF Projects (P.C. 17/2009)

38. After discussion, the following Members were appointed as mentors of 2 new HKPC-initiated projects which had been approved under the Guangdong-Hong Kong Technology Cooperation Funding Scheme of ITF and 1 ITF project initiated by HKPC as the previous mentor, , was no longer a Council member:

<u>Project</u>	<u>Mentor</u>
Innovative Development of Local Technology and Capability in Design and Manufacture of Aircraft Cabin Seat Assembly	Dr. Raymond Chan
Development of a Low Cost High Precision 5 Axes CNC Machining System to Enhance the Production Quality of Watch and Eyewear Critical Components	Dr. Daniel Yip
Development of a Numeric Controlled and User Centered 3D Dental Prostheses Design and Manufacturing System with Build-in Knowledge Based Chinese Dental Database	Dr. Daniel Yip

39. In reply to , said that a review of the success rate for HKPC's ITF proposals would be conducted and a report would be submitted to the BDC. said that, to improve the success rate of HKPC's proposals, the Management should ensure that the proposals were relevant to the needs of industry and were value-for-money in developing the assistance and solutions for industries.

X. Any Other Business

(A) Meeting of Council and Committee Chairmen and Housekeeping Meeting with ITC

40. Invited by to report, said that since 2007,

regular meetings with Council and Standing Committee Chairmen and housekeeping meetings with ITC had been held to enable HKPC to consult on important issues in an effective and timely manner. In the past 2 years, a lot of issues, especially those regarding policy and system changes in HKPC, had been implemented in consultation with the Council and Standing Committee Chairmen and ITC. As such, it was not anticipated that there would be a need to conduct monthly meetings with the Council and Standing Committee Chairmen and ITC in future. However, regular meetings would still be conducted to ensure that the Chairmen and ITC were briefed and consulted on policy and topical issues.

(B) Finance Committee Meetings

41. said that, for good governance, the Management should review whether the Finance Committee should continue to have concurrent meetings with Council. said that the concurrent meeting arrangement was adopted as there were not many financial issues to be considered by the Finance Committee alone. agreed to review the arrangement in consultation with the Council and Standing Committee Chairmen.

XI. Date and Venue of Next Meeting

42. It was agreed that the date and venue of the next meeting be left open.