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21 January 2020

Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony Chu)

Dear Mr Chu,

Public Accounts Committee

Director of Audit's Report No. 73

Chapter 2: Provision of consultancy, research and development and training services by the Hong Kong Productivity Council

Thank you for your letters of 9 January 2020 to the Secretary for Innovation and Technology and the Commissioner for Innovation and Technology (CIT). A consolidated reply setting out the information requested by the Committee is provided below.

- (a) At present, the Hong Kong Productivity Council (HKPC) has not carried out any valuation of the patents developed and owned by it in its accounts. The Government and the prevailing accounting standards also have not specified such a requirement. We understand that the HKPC's accounts are audited by an independent external auditor every year according to the prevailing accounting standards. When the independent external auditor reported their findings to the Audit Committee of the HKPC after the annual audit every year, they did not find any problem with this accounting arrangement. The Government will suggest to the HKPC to consider carefully whether the HKPC should conduct valuation of its patents in future, and obtain relevant professional advice when necessary.

- (b) The Innovation and Technology Commission (ITC) has been monitoring the performance of the HKPC in training services and whether the HKPC can meet the Government's policy objectives through its training programmes.

In working out the estimates for 2016-17 and 2017-18, the ITC took into account the fact that the HKPC had failed to meet the targets of the income from training courses and the number of people attending fee-charging training courses in 2014-15 and 2015-16. According to the reports by the HKPC to the then CIT, the main reason was the low level of awareness of the industry of new technologies/management systems and the concept of Industry 4.0. In this regard, the HKPC might need to first organise more non-fee-charging activities/seminars/training courses to raise the level of understanding and interest of the industry towards various new developments and new technologies.

The ITC considers that the Government should primarily consider whether the HKPC's services can fulfil its public mission and implement Government's policies. As the HKPC could also assist enterprises in upgrading their technological level and promote "re-industrialisation" through organising non-fee-charging seminars and training courses which was in line with the Government's policy direction and the HKPC's public mission, the then CIT accepted the explanation, and accordingly adjusted downwards the estimated number of people who attended the HKPC's fee-charging training courses and the estimated income from training courses whilst adjusting upwards the estimated number of people who attended the HKPC's non-fee-charging seminars in her Controlling Officer's Reports for 2016-17 and 2017-18 with the reasons for the adjustments clearly set out in the explanatory notes.

As regards the breakdown by the four programme areas (namely environmental technology, information technology, management systems, and manufacturing technology) of the "number of fee-charging training courses", the HKPC had also explained that the actual number of fee-charging training courses launched would depend on the prevailing demand and competition in the market. The then CIT considered that the Government should not micro-manage. Therefore, in assessing the performance of the HKPC under the above performance indicator, the focus of the Government should be whether the objectives of the training programmes and the overall figure could meet the Government's policy direction and the HKPC's public mission, and not on the breakdown.

The HKPC agrees with the recommendation of the Audit Commission that in future, the HKPC will organise training courses according to the estimated number for each programme area set out in the Annual Programme and Estimates as far as practicable. The HKPC will also review and monitor quarterly the actual activities of training operation and if the numbers of courses deviate from the estimates, the HKPC should submit full justifications to the CIT and the Council for approval.

- (c) The ITC tenders views on the direction of the HKPC's work through housekeeping meetings¹ held from time to time and day-to-day communication at different levels. In addition, the Innovation and Technology Bureau (ITB) and the ITC, having regard to the views of other non-official members, also offer views on the HKPC's development strategies through participation in the Council meetings of the HKPC to ensure that the HKPC's work can support the Government's policies.

The Government has been actively promoting the "re-industrialisation" policy in recent years. In this regard, the ITC has requested the HKPC to support the policy by stepping up efforts to assist enterprises in enhancing their technological level and providing relevant consultancy services. The ITC also noted that in recent years, there has been increasing demand for integrated solutions by the industry. Many manufacturing and technical support services have been included in consultancy projects which are related to upgrading the technological level of production lines and Industry 4.0. The ITC considers that this is in line with the Government's policy direction. Taking into account the aforesaid situation, the then CIT introduced a new indicator in her Controlling Officer's Report for 2018-19 on "income from integrated solutions", which includes the income from consultancy/technical assistance and the income from manufacturing support/process control. The relevant figures were previously reported under separate indicators. In line with market demand for integrated solutions, the revised indicator can better reflect the overall performance of the HKPC.

The ITB has been implementing various policy measures to promote the development of innovation and technology (I&T) through organisations under its purview, including the HKPC, the five research and development (R&D) centres², the Hong Kong Science and Technology

¹ Housekeeping meetings are held thrice per year, during which the Executive Director of the HKPC will highlight the major discussion items of the next round of Council and Standing Committee meetings to the CIT.

² The five R&D centres were set up in 2006, including the Automotive Platforms and Application Systems R&D Centre, the Hong Kong Applied Science and Technology Research Institute, the Hong Kong Research Institute of Textiles and Apparel, the Logistics and Supply Chain MultiTech R&D Centre, and the Nano and Advanced Materials Institute.

Parks Corporation and the Hong Kong Cyberport Management Company Limited. As Directors of the Boards of the above organisations, the Permanent Secretary for Innovation and Technology and/or the CIT (or their representatives) participate in the Board meetings to discuss how these organisations could assist the Government in promoting the I&T development. Officers of the ITB and/or the ITC also co-ordinate and discuss the direction and objectives of these organisations in promoting I&T development through meetings with their management from time to time, including meetings between the CIT and the Chief Executive Officers of the relevant organisations, and other liaison activities.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Rebecca Pun', with a long horizontal stroke above it.

(Ms Rebecca Pun)

Commissioner for Innovation and Technology

c.c. Secretary for Innovation and Technology
Secretary for Financial Services and the Treasury
Chairman, Hong Kong Productivity Council
Executive Director, Hong Kong Productivity Council
Director of Audit