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F.C. 3/2014 (Revised)

**Revised Minutes of the 50th Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 18 March 2014
in the Board Room, 2nd Floor, HKPC Building
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Mr. Victor Ng, MH

Members - Mr. Adolph Leung, JP
(representing Mrs. Helen Chan, JP)
Mrs. Agnes Mak Tang Pik-yee, MH, JP
Dr. David Ng Tai-chiu
Dr. Dennis Ng Wang-pun, BBS, MH
Mr. Frank Tsang

In attendance from HKPC :

Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Edmond Che	General Manager, Finance and Procurement
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Gillian Luk	Senior Manager, Council Secretariat

Vote of Appreciation

The Chairman suggested, and Members agreed, to record a vote of appreciation to Mr. Clement Chen Cheng-jen, SBS, JP for his contribution during his tenure as Member.

Confirmation of Minutes (F.C. 14/2013 Revised)

The Revised Minutes of the 49th Meeting of the Finance Committee held on 18 November 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. Financial Performance of HKPC for the First Three Quarters of 2013/14 (April – December 2013) (F.C. 1/2014)

1. Invited by the Chairman, introduced the paper which set out the financial performance of HKPC for April - December 2013. then said that, according to the latest projection for 2013/14, external income was estimated to come to HK\$362M. This was HK\$6M short of the budgeted income target for the year but the same as the 2012/13 actual income which was the highest in the past five years. Value added was estimated to be HK\$207M which, while lower than the budgeted target, was slightly higher than that achieved in 2012/13. The projected financial result for 2013/14 was around HK\$13/14M (after VP provision), compared to HK\$21M last year. But it should be pointed out that in 2012/13, an amount of HK\$3M building related expenditure had not been utilized as budgeted on account of delay by the contractor. On the other hand, the projected financial result for 2013/14 would include an over budget spending of HK\$4M on building related works. Hence, despite the income target not being met, the 2013/14 financial result would be the same as that for 2012/13 which was the best in years.

2. said that project delivery and the income position of divisions were being closely monitored on a weekly basis and at this point the Management was confident that the projected income could be achieved. In this connection, the projected financial result of HK\$13/14M, where achieved, would obviate the need to resort to utilizing the reserve for the procurement of the high precision 5-axis vertical machine which was approved by the Council in November 2013, subject to all tender and procurement procedures being completed within 2013/14.

3. In reply to , explained that, in accordance with the accounting practice of HKPC, a committed procurement order would suffice for entry as an expense item on the relevant year's accounts. Supplementing, explained how this practice had been in use for long when HKPC was fully subvented and the subvention was divided into recurrent subvention and capital subvention.

4. said that, in line with current accounting principles in the market, delivery and payment would also be required to formalize the procurement as an expense item in the accounts. and agreed and concurred on the general principle that only what had been paid should be entered as an expense item in the accounts. said that the same principle was largely followed by government

departments and that under HKPC's practice, actual expenditure and the accounts might not always be tallied.

5. said that subvention to HKPC now was in the form of an annual block grant without differentiation into recurrent and capital subvention. Furthermore, as agreed with the Government, HKPC was allowed to keep its surplus as reserves after first exhausting the block grant for the year. Hence, any rationale or consideration supporting the existing accounting practice by HKPC could be revisited in the light of the current situation.

6. thanked Members for their advice and said that the Management would consider the long standing accounting practice with HKPC's external auditor. said that there were also practical considerations to the Management's plan to issue the purchase order for the 5-axis vertical machine within 2013/14 where a healthy budget surplus was anticipated. There was frankly no guarantee that HKPC could always produce sizeable budget surpluses, hence all big ticket purchase items had to be carefully planned and spaced to minimize the negative effect of such expenditures on HKPC's financial results. This was especially important with the various building maintenance projects waiting to be implemented in the years ahead.

7. In reply to , said that a professional consultant was engaged and had advised that the financial requirement for all the required building maintenance work to be implemented over a 10-year period would be in the region of HK\$100M at existing prices.

 said that there was merit to consider implementing the major works within a shorter time frame, say one or two years, to minimise the impact of such works on HKPC's financial performance over a long period of time. Separately, the Management and ITC could further discuss how to make more gainful use of HKPC's reserve for worthwhile purposes while reducing the impact on HKPC's annual financial accounts. said that this had to be considered in practical terms that putting money aside, whether it was at all feasible to have and manage the whole HKPC Building being under major renovation work for one year or two. Besides, we should consider prioritizing the items to be done in order to least affect the operation of the Council.

8. In reply to , said that the WFOEs would progressively build up project delivery capability so that they could take on more consultancy projects on their own and gradually reduce the need to subcontract project delivery work to HKPC. In reply to , said that project work subcontracted to HKPC was charged on full cost recovery basis. Such subcontracted work was supported in

each case by a contract signed by the relevant WFOE and HKPC division.

9. In reply to _____, _____ said that APAS was separately funded and its activities did not have any impact on HKPC's financial performance. The focus of APAS was on R&D work rather than fee based services.

10. In reply to _____, _____ said that the maintenance fee for the ERP system would be captured under expenditure instead of being shown separately in the audited accounts.

11. Members noted the financial performance of HKPC and its three branches for the period April to December 2013.

II. Quarterly Report on HKPC's Funds (F.C. 2/2014)

12. Members noted that as at 31 December 2013, HKPC's cash balance was \$198M which was placed in time deposits or saving accounts according to the existing investment framework. The actual bank interest income earned by HKPC in the first three quarters of 2013/14 was \$0.7M, representing an average return rate of 0.75%. This return rate was higher than the average interest rate (around 0.01%) for savings account currently offered by the major banks in Hong Kong.

13. _____ said that the revised investment guidelines by the Government had been issued. Pursuing new investment options under the revised guidelines would require compliance with a considerable number of rules and therefore the document had to be studied carefully before making a decision. ITC was reviewing the guidelines and would discuss with HKPC on the way forward, obtain the initial agreement of the Financial Services and the Treasury Bureau and other relevant Departments of HKPC's investment proposal, before consulting the Finance Committee and Council.

III. Any Other Business

(A) Attendance Record of FC Members

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

IV. Date of Next Meeting

15. It was agreed that the date of the next meeting was scheduled for 22 July 2014 at 2:30pm.

16. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 3:35pm.