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information and Members' names removed)**

F.C. 20/2016 (Revised)

**Revised Minutes of the 58th Meeting of the Finance Committee
held at 2:30p.m. on Wednesday, 16 November 2016
in the Board Room, 2nd Floor, HKPC Building
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Mr. Victor Ng, MH

Members - Mr. Felix Chow Bok-hin
Mr. Wilson Fung Ying-wai (attendance via
tele-conferencing)
Mr. Bryan Ha Kwok-fung
Mr. Desmond Hou
(representing Mrs. Helen Chan, JP)
Mrs. Agnes Mak Tang Pik-yee, MH, JP
Dr. Dennis Ng Wang-pun, BBS, MH

In attendance from HKPC :

Dr. Lawrence Cheung	Director, Technology Development
Mr. Tony Lam	Director, Corporate Services
Mr. Gordon Lo	Director, Business Management
Mr. Jonathan Ho	General Manager, Corporate Communication and Marketing
Ms. Vivian Lin	General Manager, Finance and Procurement
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Olivia Poon	Manager, Council Secretariat

Confirmation of Minutes (F.C. 13/2016 Revised)

1. The Revised Minutes of the 57th Meeting of the Finance Committee held on 19 July 2016 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.

II. Revised Programme and Estimates of HKPC for 2016/17 (F.C. 14/2016)

3. Invited by the Chairman, introduced the paper and said that the Finance Committee, in endorsing the draft audited accounts for 2015/16 at its 57th meeting held in July 2016, noted that while income performance and the overall financial results achieved were commendable, the value-added was below target. Members advised that the Management should ensure that realistic budgets should be set to minimize variance between the budget estimates and actual results. This was particularly more so for important parameters such as project expenses, which, if budgeted incorrectly, would adversely affect performance in value-added. It was against the above background that the Management had re-examined the estimates for 2016/17, taking into account the past trends between the budgeted and actual performance as well as the estimated project expenses for projects in the pipeline. The review focused on four major expenses items, namely direct project expenses, staff emolument, other fixed costs and depreciation, as well as reference to the direct project expenses of the projects in the pipeline on hand in order to determine realistic direct project expenses estimates.

4. said that the external income and financial results would remain unchanged as in the originally approved Programme and Estimates for 2016/17. However, there would be an increase in direct project expenses estimates which would be compensated by reduction in staff emolument and other fixed costs estimates, as follows:

- (a) direct project expenses estimates for 2016/17 would be revised upward from \$164.5M to \$185.3M, or from 38.3% to 43.2% as a percentage of external income, the latter of which was more aligned with the recent trend;
- (b) staff emolument estimates would be revised downward from \$373.4M to \$358.1M with a growth rate of 4.8% from 2015/16; and
- (c) the overall other fixed cost estimates would be reduced from \$63.0M to \$57.5M.

5. In reply to , said that while the financial result up to September 2016 was \$18M, this was estimated to be progressively reduced as certain consumable goods which would be expensed upon receipt were to be received in the second half of the year. Another factor was that the project expenses for projects in the pipeline were higher than that in the first half of 2016/17 in relation to income. Meanwhile, this half year surplus would also be reduced by new expense items for projects in the second half of the year.

7. said that it was important for direct project expenses to be systematically monitored and controlled. In response, said that at present project staff would need to itemize all project expenses when seeking approval to open a project. As a further control to ensure accurate cost estimation, all variations to the itemized project expense items for projects of certain scale would require approval by personally.

8. enquired whether it was advisable to include a remark in the revised 2016/17 estimates that it was not a consolidated forecast as it did not include the forecasts of HKPC's Mainland subsidiaries. After some discussion, the meeting considered that while a consolidated picture would be presented in HKPC's annual accounts which would be published in HKPC's annual report to be presented to the Legislative Council, it presented no insurmountable problem if we stated that the revised 2016/17 estimates were not a consolidated account.

9. Overall, Members endorsed for the Council's approval the revised Programme and Estimates for 2016/17 as outlined in paragraph 9 of the paper.

III. Programme and Estimates of HKPC for 2017/18 and Three-Year Forecast 2017/18 - 2019/20 of HKPC Income and Expenditure (F.C. 15/2016)

10. Invited by the Chairman, introduced the paper and said that the forecast for the years 2017/18 to 2019/20 was anchored on the three-pronged strategy and the Three-Year Strategic Plan of HKPC approved by the Council in April and July 2016 respectively. In pursuance of the strategic plan, 12 corporate goals had been approved by the Council in July 2016. These goals had been formulated under the Smart City and Smart Industry concept to help local industries seize the many opportunities offered by Industry 4.0 which advocated a new smart business and industry paradigm transformation for enterprises in both the service and manufacturing sectors to stay competitive globally. In developing new services under these corporate goals, HKPC would aim to focus on four major categories of activities, namely market research and study, stakeholder engagement and survey, service and technology roadmap development, and industry engagement and service promotion. Meanwhile, HKPC's ongoing services would also support the "Smart" concept to address industry needs in five major areas:

- (a) solutions in biomedical engineering, optical and precision engineering, smart mobility and green transportation;

- (b) smart and innovative environmental solutions;
- (c) integrated one-stop support in smart manufacturing technologies;
- (d) end-to-end consultancy and training services on business sustainability and continuous improvement; and
- (e) e-Commerce IT consultancy, new cyber security, business process management and industry support.

Details of the corporate goals and major service focus were outlined in paragraphs 5-12 of the paper.

11. With regard to the Key Performance Indicators (KPIs) for HKPC, said that the 2017/18 targets for the set of 23 indicators approved by the Innovation and Technology Commission (ITC) were set out in Appendix 14 of the paper.

12. said that it might be opportune for the Management to re-examine some of the KPI targets for 2016/17 in the light of the performance in the first 6 months and consider whether any revisions (upward or downward) would be justified, for example, whether the target for the number of people attending exhibitions / study missions / conferences should be increased given the good progress in the first half of 2016/17. In response, said that the Management could review the various KPI targets even though it was not the practice of HKPC to do so lest being looked upon as operating against moving targets, especially when downward adjustment was concerned.

13. In reply to , said that proposed investment in capital items were carefully assessed against business and operation needs. It was not anticipated that the proposed capital items for 2017/18 would create cashflow issues for HKPC.

14. In reply to , said that the “Smart” concept and the associated initiatives would support the government policy to promulgate re-industrialization and retooling. This link would be more clearly stated when submitting the paper for the Council’s approval.

15. Members were then briefed by on the financial estimates and forecast. On the overall forecast, external income was estimated to increase by 10.3% from \$449.8M in 2017/18 to \$496M in 2019/20, while expenditure was estimated to increase by 7.2%. The income/expenditure ratio was

estimated to increase from 69.6% in 2017/18 to 71.6% in 2019/20. With regard to the estimates for 2017/18, said that total income for 2017/18 came to \$449.8M while total expenditure was projected to be \$646.4M.

16. asked whether salary increase should also be included as an assumption made for the preparation of the estimates and forecast for 2017/18 to 2019/20. In response, said that had no major objection to the Management including such information when submitting the paper to the Council for approval.

(Post meeting note: an assumption for a 5.5% basic salary increase for senior consultants and above rank, and a 6.5% basic salary increase for consultant and below rank in the baseline forecast was made in the paper presented to the Council meeting on 30 November 2016.)

17. Members endorsed for the Council's approval:

- (a) HKPC's Three-Year Forecast for 2017/18-2019/20;
- (b) the detailed Programme and Estimates of HKPC for 2017/18 which included the overall staff establishment of 695 (including the APAS of which the establishment size was 33) endorsed by the Staffing Committee at its 55th meeting held on 8 November 2016; and
- (c) the proposed targets for KPIs for 2017/18.

18. Members also noted:

- (a) the revised estimates for 2016/17 and the forecast for 2017/18 – 2019/20 of the Mainland subsidiaries which did not form part of HKPC's estimates for the purpose of subvention requirement; and
- (b) the continued operation of APAS (as separately funded under ITF) for 4 years up to 31 March 2021 and the indicative funding to be allocated to support the operation of APAS during 2017/18 – 2019/20 as supported by the Panel on Commerce and Industry of the Legislative Council on 16 June 2015.

VI. Financial Performance of HKPC for the First Two Quarters of 2016/17 (April - September 2016) (F.C. 18/2016)

27. Members noted the financial performance of HKPC and its branches for the period April to September 2016. For the first two quarters of 2016/17, HKPC's total external income was \$193.2M, which was lower than the budget by \$21.5M (or 10.0%). Total expenditure was \$195.7M, or 10.4%

less than the budget. The financial result for the period was more than budgeted surplus by \$14.2M. During the same period, the provision for staff annual leave was reduced by 30.6% to \$10.6M in September 2016 compared to a year ago, and the number of staff annual leave days with financial implication was also reduced from 7,107 to 6,006, or by 15.5%. Members also noted the half-yearly performance of HKPC in terms of KPIs which were provisional figures and might require adjustment before being finalized.

28. In reply to , said that when the new job family structure was fully implemented in October 2017, staff would be required to clear their accumulated leave balance within a designated period. They would also be required to exhaust all new leave entitlement on an annual basis. It was anticipated that no financial provision for accumulated staff leave would be required after October 2020.

VII. Quarterly Report on HKPC's Funds (F.C. 19/2016)

29. Members noted that as at 30 September 2016, HKPC's cash balance was \$243M. The actual bank interest income earned by HKPC in the first two quarters of 2016/17 was \$0.2M, representing an average return rate of 0.4%, which was higher than the 0.02% average interest rate for savings accounts offered by major banks in Hong Kong. Members also noted that no investment had been made in Bonds/Notes and Certificates of Deposits which were added to the investment framework of HKPC after approval by the Financial Secretary in June 2015. This was because these products so far offered a lower rate of return and flexibility than time deposit.

VIII. Any Other Business

(A) Attendance Record of FC Members

30. Members noted their attendance record in 2016 tabled at the meeting.

(B) 2017 Meeting Schedule

31. Members noted the proposed 2017 FC meeting schedule tabled at the meeting, as follows:

Meeting	Date and Time
59 th FC meeting	21 March 2017 (Tuesday) 2:30pm
60 th FC meeting	11 July 2017 (Tuesday) 2:30pm
61 st FC meeting	21 November 2017 (Tuesday) 2:30pm

IX. Date of Next Meeting

32. It was agreed that the date of the next meeting was scheduled for 21 March 2017 at 2:30pm.

33. There being no other business, the Chairman thanked Members for their attendance and the meeting was closed at 4:35pm.