

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

BDC 25/2010 (Revised)

**Revised Minutes of the 43rd Meeting of the
Business Development Committee held at 2:30p.m.
on Tuesday, 2 November 2010 in Conference Room 1,
2nd Floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Dr. The Hon. Samson Tam Wai-ho, JP

Members - Dr. Cliff Chan Chok-ki
Dr. Raymond Chan, JP
Mr. Jimmy Kwok Chun-wah, MH, JP
Mr. Andrew Lai, JP
Mr. Lo Foo-cheung, JP
Mrs. Agnes Mak

Absent with Apologies : Ir Daniel Cheng Man-chung, MH

In Attendance : HKPC Chairman - Mr. Clement Chen, BBS, JP

In attendance from HKPC :

Mr. Tony Lam	Director, Corporate Services
Mr. Edmund Sung	Director, Business Consulting
Mr. Joseph Poon	Director, Technology Development
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Council Secretariat
Ms. Miranda Yeap	Senior Consultant, Council Secretariat

Welcome

The Chairman welcomed Mrs. Agnes Mak, new Executive Director of HKPC who attended the meeting for the first time.

Confirmation of Minutes (BDC 17/2010)

The Minutes of the 42nd Meeting held on 20 July 2010 had been circulated to Members and there were no request for amendment. The Minutes were taken as read, confirmed and signed by the Chairman.

I. Matters Arising:

II. New Business Initiatives (BDC 20/2010)

4. Invited by the Chairman to report, informed the meeting that HKPC was focused on identifying and pursuing new service initiatives on a continued basis to provide relevant and timely support to industries to meet their needs in the changing business landscape. then briefed Members on the following 5 new business initiatives:

- (a) Mechanical Watch Movement Development Centre;
- (b) Chemical Extraction and Processing Laboratory;
- (c) Intelligent Manufacturing System;
- (d) New Material Processing and Application (Carbon Composite and Al-Li Alloy); and
- (e) NEW (Next-generation Entrepreneurs Web).

5. said that the first four initiatives were technology related and would require intensive capital investment in equipment in the region of HK\$47M. However, HKPC was not able to self-finance these investments as its existing funding structure primarily supported only its baseline activities. Accordingly, respective bids of HK\$12M and HK\$18.3M had been submitted for initiatives (a) and (b) above under the Government's 2011/12 Resource Allocation Exercise (RAE). HKPC would explore all possible avenues to get the necessary resources to get the other initiatives off the ground. As regards initiative (e) above, it would be implemented by HKPC within its annual budget as there was no need for any major capital investment. Details of these initiatives were outlined in paragraphs 6-22 of the paper.

6. In response to [redacted] query on the application of the Intelligent Manufacturing System to different industries, [redacted] explained that the mould industry would be selected to set up a demo backbone system to link up the generic manufacturing processes and data for the common utilization of relevant industries. The establishment of an Intelligent Mould Shop as a first step would integrate various machine tools and precision measuring requirement with an automation handling system for mould fabrication. This would be followed by extending the i-Mould Shop concept to i-Manufacturing, covering the whole manufacturing process from automatic material handling, on-line process and quality control, automatic setup, to automatic assembly.

7. Whilst noting that HKPC has submitted a RAE bid for initiatives (a) and (b), [redacted] enquired as to how HKPC would identify the resources required for initiatives (c) and (d). [redacted] replied that HKPC would liaise with manufacturers for funding support on initiative (c) and possibly make use of government funding as funding source for initiative (d) as HKPC's recurrent subvention would not be able to provide the resources required.

[redacted] supplemented that should the result of the Government RAE failed to support both initiatives (a) and (b), HKPC would need to reconsider the implementation priorities for all the four technology related initiatives and consult the BDC on the resources implications.

8. In reply to [redacted], [redacted] said that it was difficult for new services to generate meaningful return on investment because the services provided were of an emerging nature.

9. [redacted] said that [redacted] realized that there was an actual need for additional resources to support new initiatives and [redacted] appreciated the difficulty for a new initiative to be revenue-generating in the initial years. As an alternative to provide data and assurance, [redacted] suggested that it might be worthwhile for the Management to evaluate what industry sectors, together with the number of establishment in each of the sector identified, would potentially form the customer base for each of these technology related initiatives.

10. [redacted] asked whether HKPC would liaise with the machine manufacturers to deposit for free or for a small rental the relevant machines for demonstration purpose in support of the Intelligent Manufacturing System so as to reduce the set-up cost of the proposed new system. [redacted] replied that HKPC had indeed explored this option and secured some sponsorship commitments. However, it was unlikely that sponsorship or machine

consignment could meet all the machine needs of this initiative given the diverse range of machines and equipment required to meet the different automation needs specific to different industry sectors.

11. supported initiative (e) and said that whilst there were networking channels organized by other organizations (e.g. trade associations, the Youth Council etc.), to link up the next generation entrepreneurs, those were largely social platforms without structured discussion on business and management matters.

12. Members endorsed in principle the five yet-to-be launched new business initiatives. Members also agreed that pending the outcome of the RAE on the first two initiatives, HKPC would accord implementation priority to the proposed business initiatives for further consultation with the BDC.

III. Report on HKPC's Mainland Subsidiaries (WFOEs and JVs) (BDC 21/2010)

13. Invited by the Chairman to report, briefed the meeting on the progress update of the Wholly Foreign Owned Enterprises (WFOEs), Shenzhen SZ-HK Productivity Foundation Co. Ltd. (SZJV) and Chongqing-Hong Kong Productivity Promotion Centre Co. Ltd. (CQJV), in particular the way forward for these entities.

14. briefed Members that the WFOEs located in Shenzhen, Dongguan and Guangzhou would continue with and expand their flagship services at the two platforms TURN and CP3 in the PRD cities as the PRD governments were keen to collaborate with HKPC through WFOEs to support manufacturers improve their competitiveness and transform their operation modes. New business areas such as innovative product development, low carbon manufacturing and high value added business model for the industries were being explored with individual PRD governments. On financial performance, the total accumulated loss of WFOEs since inception in 2003/04 had been substantially reduced to HK\$244,959. On the way forward, government projects, industrial marketing and public training would continue to be the work focus of WFOEs. WFOEs would also continue to promote and implement the DG TURN programme and explore collaboration opportunities with the authorities of 9 PRD municipalities regarding service support to industries, particularly in training.

15. With regard to the SZJV, said that in 2009-10, SZJV earned an income

of HK\$4.2M with a profit of HK\$66,948. SZJV's accumulated operating gain as of 31 March 2010 was HK\$206,060. During the period 1 April 2010 – 30 September 2010, SZJV earned an income of HK\$2,258,229 and reported a loss of HK\$535,597. The loss was due to the late arrival of JV operation funds from the Shenzhen Government which only arrived in early November 2010.

16. further briefed the meeting on the financial performance of CQJV which was set up as a joint venture company between the Chongqing Productivity Promotion Centre (CPPC) and GZWFOE in 2004/5 to capture the opportunities of CEPA and Pan-PRD Regional Co-operation Framework Agreement. Under the collaboration framework, GZWFOE's contribution of the 40% of the paid-up capital (RMB1.2 million) was not injected by cash but through conducting consultancy services for CQJV. The consultancy fee so earned was then applied as GZWFOE's contribution towards its share of paid-up capital for the JV. CQJV recorded a loss of RMB 20,331 in the year 2009 and accumulated loss of RMB 84,361 since its inception in 2005. At the recent CQJV Board meeting held on 26 August 2010, CPPC agreed to reimburse CQJV the same amount of its accumulated deficit to offset the loss with immediate effect. Hereafter, CPPC would consider doing the same in case of deficit on an annual basis. A shareholder agreement was concluded by both shareholders to reduce the paid-up capital of CQJV from RMB 3 million to RMB 0.5 million while the share ratio remained unchanged. At the same time, the back-to-back service agreement for GZWFOE to offset the outstanding pre-paid consultancy fee from CQJV would be terminated.

17.

18. said that expected that the LegCo would be concerned about the business potential and longer term financial sustainability of the WFOEs. In response, said that HKPC would continue to be prohibited from providing competitively priced services, via the WFOEs, to the large number of Hong Kong owned factories in the PRD because of the full cost recovery requirement which should be urgently reviewed. Separately,

said that it would also be useful if the limit on HKPC's reserve could be removed to allow resources to go into the Mainland for the purchase of equipment.

said that in accordance with the HKPC Ordinance, HKPC was required to use full cost recovery for services provided outside Hong Kong. As it would be difficult to initiate a legislative amendment, the alternative was to explore administrative measures which would help HKPC to utilize its resources more flexibly. ITC was pursuing with the Financial Services and Treasury Bureau on lifting the limit on HKPC's reserve. This

would be further explored and followed up outside the context of the BDC meeting.

19. Members noted the progress update of WFOEs, SZJV and CQJV, in particular the way forward for these entities.

IV. Report on Projects for Government Funding Schemes (July – September 2010) (BDC 22/2010)

20. reported that during the period of July to September 2010, HKPC was involved in 6 newly approved projects, including projects funded by Innovation and Technology Fund (ITF), Professional Services Development Assistance Scheme (PSDAS) and CreateSmart Initiative with total funding of HK\$7.5M. In response to , said that whilst the number of projects for the first two quarters seemed to be on the low side, there were 11 ITF projects pending approval and the figures were expected to be on the rise in due course.

21. Members noted the report.

V. Interim Performance Review of Completed ITF Projects (BDC 23/2010)

22. introduced the paper which contained the interim performance review of one ITF project “Development of Software and Hardware Platform and Methodology for Integrated Configurable Dashboard Design” which was completed within budget.

23. Members noted the paper.

VI. Final Performance Review of Completed ITF Projects (BDC 24/2010)

24. introduced the paper which contained the final performance review of the following two ITF projects which were completed within budget:

- (a) Development of a Numeric Controlled and User Centered 3D Dental Prostheses Design and Manufacturing System with Build-in Knowledge Based Chinese Dental Database; and

- (b) Development of an Innovative Manufacturing Solution for Energy-saving and Environmental-friendly Production of the Brassiere Cup.

25. In response to enquiry as to whether ITC was satisfied with the report, said that whilst there was no problem with the completed project reports submitted by HKPC, cautioned that starting from next year, there would be follow up assessments on the progress of the commercialization and technology transfer of completed projects so as to provide a reference for relevant projects to be approved in future.

26. Members noted the paper.

VII. Any Other Business

(A) 2011 Meeting Schedule

27. Members noted the proposed 2011 BDC Meeting Schedule which was tabled at the meeting, as follows:

Meeting	Date and Time
44 th BDC meeting	15 March 2011 (Tuesday) 2:30pm
45 th BDC meeting	28 June 2011 (Tuesday) 2:30pm
46 th BDC meeting	1 November 2011 (Tuesday) 2:30pm

28. Members noted that the Secretariat would stick to the schedule unless circumstances warranted otherwise. In that event, the meetings would be scheduled within a period of one week before or after the original targeted dates to fit Members' schedules.

(B) Attendance Record of BDC Members

29. Members noted the attendance record in 2010 tabled at the meeting.

VIII. Date of Next Meeting

30. It was agreed that the date of the next meeting was scheduled for 15 March 2011 at 2:30pm.

31. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:00pm.