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

F.C. 20/2010 (Revised)

Revised Minutes of the 40th Meeting of the Finance Committee held at 2:30p.m. on Tuesday, 9 November 2010 in Conference Room 1, 2nd Floor, HKPC Building 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon

Present : Chairman - Mr. Clement Chen Cheng-jen, BBS, JP

Members - Mr. Davey Chung
Mr. Adolph Leung
(representing Mrs. Helen Chan, JP)
Dr. David Ng
Dr. The Hon. Samson Tam Wai-ho, JP
Mrs. Agnes Mak Tang Pik-yee, MH, JP

Absent with Apologies: Prof. Lee Wing-bun

In attendance from HKPC :

Mr. Edmund Sung	Director, Business Consulting
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Dr. Samuel Leung	General Manager, Finance and Administration
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Corporate Services
Ms. Miranda Yeap	Senior Consultant , Corporate Services

Welcome

The Chairman welcomed Mrs. Agnes Mak and Dr. Samuel Leung who attended the meeting for the first time.

Confirmation of Minutes (F.C. 14/2010 Second Revision)

The Revised Minutes of the 39th Meeting of the Finance Committee held on 27 July 2010 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. **<u>Financial Performance for the First Two Quarters of 2010/11 (April – September 2010)</u> (F.C. 15/2010)**

1. Invited by the Chairman to brief Members, reported that for the first two quarters of 2010/11, HKPC's total fee income was $147.32M, which was less than the budget by HK$3.13M or 2.1%. Total expenditure for the same period was HK$214.33M, or 11.4% less than the budget, mainly due to savings in staff emoluments, capital expenditure and recurrent expenditure. Total surplus for April to September 2010 amounted to HK$17.3M comprising capital subvention surplus of HK$4.13M and revenue subvention surplus of HK$13.17M.

2. Continuing, reported that medical expenses came to HK$2.75M in the first half of 2010/11 which was lower than the current year's budget by HK$0.78M (or 22%) but higher than the actual figure for the same period last year by HK$41K (or 2%). In addition, provision for staff annual leave was reduced by 13% to HK$24.2M in September 2010 from a year ago. continued to report that during the same period, the number of staff annual leave days with financial implication had also been reduced by 14%, from 16,614 to 14,245. added that the Audit Committee had noted the same report.

3. In response to query on the reason for the drop in total fee income, explained that some projects had been deferred. added that some divisions had also modified their strategies to engage in more government projects which would relatively require a longer application time and would allow payment to be effected after delivery of services. quoted a few examples whereby payment was delayed despite timely delivery of services. commented that was more concerned on whether any late payment was caused by the delay in the delivery of services which thereby required review on HKPC's performance and suggested that the paper should indicate in future the particular reason, e.g. late delivery of service, late payment on client's part, etc. for the shortfall in income.

4. In reply to , said that while the medical expenses for the first two quarters of 2010/11 were marginally higher than the figure for the same period last year, there was no evidence of abuse of the system. said that the number of medical visits of colleagues and their family members during the first half of 2010/11 averaged at below 20 which was well within the annual limit on the

number of consultations.

5. requested HKPC to expedite the procurement of the capital equipment from the special allocation of HK$14M under the 2009 Resource Allocation Exercise (RAE). Due largely to an improvement in Government's budgetary position, the funding window had been extended to 2011/12 to accommodate the revised cashflow of the procurement exercise. The original plan was to expend the entire sum of HK$14M within 2010/11. felt that financial discipline aside, HKPC should make every effort to ensure early delivery of the system and equipment and hence early commencement of the services involved to meet the needs of the industry expeditiously. Furthermore, given the rapid upgrading in technology development, a timely procurement and service launch would be advisable. supplemented that whilst a bit more time had been spent on preparing the tender document and the selection of equipment, expected that the purchase would be made within the one-year extended period.

6. <u>Members</u> noted HKPC's financial performance of the first two quarters of 2010/11 (April – September 2010).

II. <u>Programme and Estimates of HKPC for 2011/12 and Three-Year Forecast of HKPC for 2011/12-2013/14</u> (F.C. 16/2010)

7. Invited by the Chairman to brief Members, reported that the Council agreed at its meeting on 30 March 2010 that HKPC should submit a three-year strategic plan annually before Council considered the Three-year Forecast for the same period. The strategic plan would set out the broad strategies of HKPC for the coming three years, which would be translated into concrete initiatives in the P&E exercise subject to availability of resources.

8. In pursuit of the four-pronged strategy under the Strategic Plan, HKPC had identified 4 initiatives to address the more macro and urgent needs of industries:

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

These 4 initiatives (details at para.5-6 and Appendix 1 of paper) were supported by the Business Development Committee (BDC) at its 43rd meeting held on 2 November 2010. It was estimated that a total funding of $47.3M would be required for the necessary equipment investment. However, HKPC was not financially disposed to support these initiatives under its annual cash-limited baseline subvention, as such, they would fall outside the scope of the Programme and Estimates for 2011/12. HKPC would identify additional resources to implement them and had submitted bids under the Government's RAE for initiatives (a) and (b). In addition, HKPC was negotiating with machine vendors for consignment of machines for initiative (c) and exploring means of resources for initiative (d). In this connection, the BDC had advised that, pending the outcome of the RAE, the Management should consult the BDC on the way forward for these initiatives, with implementation priorities.

9. Continuing, said that during the forecast period, HKPC would continue to provide productivity enhancement support based on its core competence in Manufacturing Technologies, Management Systems, Information Technologies and Environmental Technologies. In particular, HKPC would continue with the following key projects and develop new initiatives to help the industry to meet challenges:

(a) Expanding the TURN model;
(b) CP3 (Cleaner Production Partnership Programme);
(c) Research, development and machine-based technology services;
(d) Information and Communications Technology (ICT);
(e) Domestic Sales for the PRC market; and
(f) Platforming of Next-generation Entrepreneurs Web (NEW).

The new initiatives of these key projects, including new and emerging ones, would be implemented using HKPC's existing resources. Details of these initiatives were outlined under the "Highlight of Future Activities" sections of Appendices 13 to 16.

10. reported that total operating income forecast for 2011/12 was estimated to be $293.5M while total expenditure was expected to be $464.9M. The income and expenditure forecast was made based on a zero budget and has taken account of, amongst others in para.13 of the paper, the slightly reduced staff establishment of 692 endorsed by the Staffing Committee at its 37th meeting held on 26 October 2010,

the assumption of an OGCIO grant of $7.4M to support the continued operation of HKCERT in

2011/12. also invited Members to note the 3-Year Forecast of WFOEs for 2011/12 to 2013/14, which did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement.

11. enquired on the chances of success of getting funding for the four initiatives. said that the 2010 RAE results were not yet available. wondered if HKPC had given any consideration to contingency plans and alternative funding source in case the Government could not provide any funding for these initiatives. also suggested to provide the income projection for the four initiatives. replied that these initiatives essentially involved research and development projects introducing emerging technology leading the market and hence would not produce meaningful income in the first three years of development. As such, our estimation was that no single initiative would generate an income of more than HK$3M during the first three years.

12. In reply to , said that essentially HKPC was not profit driven and surpluses achieved were the result of prudent financial management arising mostly from cost savings.

14. and agreed that it was common for commercial institutions to conduct mid-year financial reviews and noted that HKPC's financial position was already being reported to the Finance Committee on a quarterly basis. undertook that the Management would conduct a mid-year review of HKPC's income and expenditure for 2011/12 and prepare revised estimates if necessary and appropriate. also agreed with that the Management would keep even closer track of the feedback of clients and information gathered from the industry, the market trend, the technology landscape and the industry's demand for solutions on which to anchor for the purpose of HKPC's budget planning and forecast.

15. said that against the background of the Competition Bill, HKPC would need to exercise caution when it formed partnership or joint venture with private companies. In response, assured that in respect of commercialization, open invitation for expression of

interest and non-exclusive arrangement were two primary features of HKPC's commercialization process and the BDC was also consulted on cases of the commercialization proposals. supplemented that HKPC's collaboration partners were industry and trade associations in the main. As regards joint venture as a vehicle of commercialization, this was only a last resort when the other options were not viable in the circumstances.

16. Referring to Appendix 1 of the paper, said that the 2010/11 revised P&E should be amended to reflect the revised expenditure for the capital equipment funded under the 2009 RAE, given the delay in the procurement. Accordingly the 2011/12 P&E should include the provision of HK$5.2M carried forward from the current financial year. As regards funding for HKCERT, said that whilst OGCIO had made a provision in the 2011/12 financial year for this purpose, HKPC should expedite submission of its services proposal to the Government as soon as possible to meet the budgetary timetable. While noting that HKPC was in discussion with OGCIO on enhancing the work of HKCERT with more proactive services with commensurate funding support, <u>Members</u> agreed that HKPC should submit a proposal based on $7.4M while liaising with OGCIO separately on the extra funding requirement to enhance the work of HKCERT.

17. In response to the enquiries of and , said that in the preparation of previous budgets, a high top line had been set for the purpose of driving HKPC staff to achieve an ambitious target. However, such ambitious income targets were not achieved in previous years. For the purpose of prudent and realistic budget planning, the Management had set a more realistic target at $293.5M for 2011/12 which was already higher than any of the actual annual income achieved in the past. The estimate was also prudent having regard to the income performance of 2010/11 so far. In this connection, pointed out that while income for the first half of the year was HK$147M, total income for the year would unlikely double this amount as income taken in the second half of the year would normally be slower.

18. In reply to , said that HKPC handled staff recruitment carefully having regard to business and operation needs. The number of posts being advertised for recruitment reflected the increased difficulty to recruit suitably qualified staff as well as existing HKPC staff lost to the private sector in an increasingly competitive human resources market during good economic times.

22. After discussion, Members endorsed for Council's approval:

(a) HKPC's Three-Year Forecast for 2011/12-2013/14 (subject to adjustments mentioned at para.20); and

(b) the detailed Programme and Estimates of HKPC for 2011/12 which include the staff establishment of 692 endorsed by the Staffing Committee at its 37th meeting held on 26 October 2010.

23. Members also agreed to:

(a) HKPC pursuing identification of resource support outside the Programme and Estimates for 2011/12 for implementation of the 4 initiatives which require a total funding of $47.3M; and

(b) the 3-Year Forecast of WFOEs for 2011/12-2013/14, which did not form part of HKPC's income and expenditure estimates for the purpose of subvention requirement.

III. Programme and Estimates of BMM Ltd. for 2011/12 (F.C. 17/2010)

24. Invited by the Chairman to brief Members, reported that the BMM Ltd. was financed by HKPC's management fee income on a cost-recovery basis. The Company's expenditure, which formed part of the HKPC Building running cost, was carefully controlled. The annual

budget for running the BMM Ltd. in 2011/12 was estimated to be $3.79M, which was $2.4M less than that of the 2010/11 budget. The major reason for this substantial reduction was attributed to the savings in staff cost generated from the transfer cum redundancy of 8 administration staff from BMM to HKPC in August 2010 to rationalize the duties of BMM.

26. After discussion, Members endorsed for Council's approval the Programme and Estimates of the BMM Ltd. for 2011/12.

IV. HKPC Standard Staff Cost Rates (F.C. 18/2010)

27. Invited by the Chairman to brief Members, said that under a new Standard Practice no. F7 on "Pricing Policy" staff rates should be reviewed annually and any adjustment should be submitted to the Finance Committee for approval before implementation. There were four levels of standard staff cost rates in HKPC: L1, L2, L3 and L8. The two main parameters for determining the standard staff cost rates were the annual salary adjustment and the amount of overhead cost attributable to project activities. For staff under the performance pay system (PPS), the adjustments were based on 5 pay trend studies in the market. For staff not under the PPS, the adjustments followed that of the civil service. The Council approved the 2010/11 pay adjustment at its 114th meeting on 3 August 2010. The salary adjustments with effect from 1 April 2010 ranged from no increase to +1.6%, as shown in para. 6 of the paper. Based on salary adjustment and the overhead cost attributable to project activities, the standard staff cost rates for 2011/12 had been calculated.

28. Continuing, said that for 2010/11, the variation in the L1 cost rates for 10 staff grades would be in the range of -1.6% to +1.1%. The variation in the L2 cost rate would be in the range of -0.9% to +1.5% and the variation in the range of L3 cost rate would be in the range of -0.5% to +2.2% respectively. As for the L8 cost rates, no change was proposed for 5 staff grades, while a downward adjustment of -4.3% was proposed for 4 grades and an upward adjustment of 1.2 % was proposed

for one grade.

29. After discussion, Members endorsed the proposed new HKPC Standard Staff Cost Rates for 2011/12.

V. Quarterly Report on Investment of HKPC's Funds (April - September 2010) (F.C. 19/2010)

30. Invited by the Chairman to report, briefed Members that as at 30 September 2010, HKPC's cash balance was HK$179M (as compared to $183M last reported for June 2010). said that under the existing investment strategy, all of HKPC's funds were placed in time deposits or savings accounts. During the first two quarters of 2010/11 (April-September 2010), about 37% of cash was placed in , 29% in , 21% in and 13% in . The actual bank interest income earned by HKPC during the first two quarters of 2010/11 was HK$0.26M, representing an average return rate of 0.4% which was higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong.

31. In reply to enquiry, said that HKPC was at present only allowed to invest in savings and fixed deposits accounts. Any changes in the investment strategy had to be approved by the Financial Secretary. In this connection, Members noted that the cash balance included $52M for government funded projects and $24M as provision for accumulated staff leave. Discounting these $76M and after suitable provision for cashflow, the amount that could be invested in longer term investment vehicles would be substantially less.

32. Members noted the quarterly report on investment of HKPC's funds for the period April-September 2010. said that HKPC should explore feasible investment alternatives and consult the Finance Committee and Council at a suitable time.

VI. Any Other Business

(A) 2011 Meeting Schedule

33. Members noted the proposed 2011 FC meeting schedule tabled at the meeting, as follows:

Meeting	Date and Time
41st FC meeting	22 March 2011 (Tuesday) 2:30pm
42nd FC meeting	19 July 2011 (Tuesday) 2:30pm
43rd FC meeting	8 November 2011 (Tuesday) 2:30pm

34. Members noted that the meetings would be held on the specified dates and adjustment, if at all necessary, would be within a period of one week before or after the proposed dates to fit in Members' schedules.

(B) Attendance Records of FC Members

35. Members noted their attendance record in 2010 tabled at the meeting.

VII. Date of Next Meeting

36. It was agreed that the date of the next meeting was scheduled for 22 March 2011 at 2:30pm.

37. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:50pm.