Revised Minutes of the 37th Meeting of the Finance Committee
held at 2:30p.m. on Thursday, 12 November 2009
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. H.Y. Cheung
          (representing Mrs. Helen Chan, JP)
          Mr. Davey Chung
          Mr. Wilson Fung
          Dr. The Hon. Samson Tam Wai-ho, 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 (Acting)
Mr. Sam Law     General Manager, Finance Division
Mr. Alfonso Tam Principal Consultant, Corporate Services
Mr. Steve Kong  Senior Consultant, Corporate Services

Welcome

The Chairman welcomed Mr. H.Y. Cheung, Principal Economist, Mr.
Tony Lam, Director of Corporate Services, and Mr. Joseph Poon, Acting
Director of Technology Development, HKPC who attended the meeting
for the first time.

The Minutes of the 36th Meeting of the Finance Committee held concurrently with the 111th Council meeting on 21 July 2009 had been circulated to Members and there was no request for amendments.

(Post-meeting note: The Minutes of the joint meeting were confirmed at the 112th Council meeting held on 17 November 2009.)


1. Invited by to report,

said that for the first 2 quarters of 2009/10, HKPC’s total fee income was less than the budget by HK$4.29M. Total expenditure for the same period was HK$220.22M, or 13.8% less than the budget. This was mainly due to savings in staff emoluments, capital expenditure and recurrent expenditure. Total surplus for April to September 2009 amounted to HK$22.13M comprising capital subvention surplus of HK$7.95M and revenue subvention surplus of HK$14.18M.

2. Continuing, reported that according to the latest financial projection, the income would reach HK$303.99M for the whole year of 2009/10 which was higher than the annual budget by HK$17.33M (or 6.1%). said that the income surplus was mainly contributed by environmental management, manufacturing technology and training services. Expenditure would be HK$512.43M which was less than the annual budget by HK$7.1M (or 1.4%) as a result of minor cost savings. Overall, a surplus of HK$6M was projected at year end.

3. Separately, reported that medical expenses came to HK$2.71M in the first half of 2009/10 which was lower than the current year’s budget by HK$1.43M (or 34.5%) and less than last year’s actual figure by HK$0.07M (or 2.4%). In addition, it was encouraging to see that provision for staff annual leave was reduced by 8.4% to HK$27.9M in September 2009 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 9.4%, from 18,347 to 16,614.

4. In reply to                     enquiry,                     said that the previous budget was prepared at the time when the financial tsunami struck the market and market situation was gloomy. In view of the economic recovery, the original forecast for the whole year of 2009/10 was considered to be conservative.

5.                      commented that capital investment was critical to HKPC’s core competence building and suggested that HKPC should provide a snapshot of the capital investment related projects to facilitate Council members’ advice on HKPC’s future business development. Concurring with               ,           suggested HKPC to provide a list of capital investment for Members’ information and discussion at the forthcoming Council meeting.

6. In response,                     said that a list of HKPC’s actual and planned investment in capital equipment for the past 2 years and 2010/11 would be prepared and tabled at the 112th Council meeting for Members’ comments.

7. Members noted the financial performance of HKPC for the first two quarters of 2009/10 and agreed that in future reports, a qualitative analysis of the financial performance should be included to provide a snapshot of the status of, and outlook for, HKPC’s business activities.

(Post-meeting note: A paper P.C. 34/2009 on HKPC’s actual and planned investment in capital equipment for the past 2 years and 2010/11 was tabled and introduced at the 112th Council meeting held on 17 November 2009 for Members’ comments.)


8. Invited by                     to brief Members,                     reported that during the forecast period, HKPC would continue to provide productivity enhancement support to the industry based on its core
competence in Manufacturing Technologies, Management Systems, Information Technologies and Environmental Technologies. In particular, HKPC would continue with key projects and develop new initiatives to help industry and commerce meet challenges, including TURN and TURN II, Cleaner Production Partnership Programme (CP3), domestic sales for the PRC market, knowledge management, corporate social responsibility (CSR), R&D and machine-based technology transfer initiatives, especially for the foundation industry, and sectoral platforming with various quality certification schemes and industrial parks in the PRD for individual industry sectors.

9. Continuing, reported that due to improvement in the market, it was projected that HKPC’s fee income for the year ending 31 March 2010 would be in the region of HK$304M, against the 2009/10 income budget of 287M. Savings in staff cost and recurrent expenditure were estimated to be HK$20.7M while project expense would increase by HK$13.7M as a result of the increased project activities. On balance, it was estimated that the financial outturn for 2009/10 would produce a budget surplus of HK$6M, instead of the original budget deficit of HK$17.8M.

10. further reported that taking into account the impact of the recovering economy on HKPC’s activities, income forecast for the next 3 years would increase by 4.9% from HK$331.3M in 2010/11 to HK$347.5M in 2012/13. Meanwhile, expenditure would increase by 3.2% over the forecast period. The income/expenditure ratio would increase from 66% in 2010/11 to 67% in 2012/13.

11. As for estimates for 2010/11, reported that the 2010/11 Provisional Operating Expenditure Envelope (OPEX) was HK$170.6M as advised by the ITC. Total income forecast, including notional rental income, came to HK$331.3M and total expenditure was projected to be HK$501.9M, including the staff establishment of 701 endorsed by the Staffing Committee at its 34th meeting held on 2 November 2009, a provision of HK$5M for the variable pay for 2010/11, and the assumption of an OGCIO grant of HK$7.1M to support the continued operation of the HKCERT in 2010/11. The income/expenditure ratio for HKPC was estimated at 66%.
continued to report the significant improvement in the financial performance of the Wholly Foreign Owned Enterprises (WFOEs). Income of the 3 WFOEs was estimated to be HK$15.5M in 2010/11, rising to HK$16.3M in 2012/13. The staffing requirement of the WFOEs would be maintained at 50 for the forecast period.

13. further reported that in 2010/11, the major focus of the WFOEs would be on industrial marketing, strategic collaboration with local authorities in the PRD, support to the Shenzhen SZ-HK Productivity Foundation Co., Ltd. (SZJV), market development for TURN and the Cleaner Production Partnership Programme, and new business development.

14. asked whether the notional rental income should appear in the Programme and Estimates as it would be offset by the exact amount of notional expenditure.

15. In response, said that in accordance with accounting principles, it was important to reflect the cost of rental in HKPC’s business operations. concurred.

16. said that while the 3-year forecast was designed to achieve a strategic guidance purpose for HKPC, its practical usefulness was limited by the current practice of subvention by the Government, in which the Government did not take into consideration HKPC’s emerging needs of business development in the next 3 years.

said that HKPC’s mission was to support the industry. Profit making was not and should not be HKPC’s operational objective. However, the Government’s current block grant subvention mode did not serve well to support HKPC’s public mission and in fact rendered HKPC’s 3-year planning a futile exercise because the forecast was done on a baseline basis and there was limited room for new and expanding services.

reiterated that, to make the 3-year planning meaningful, the Government should at least let HKPC know whether there would be any other chances for non-recurrent additional funding over the next 3-years other than the block grant.

17. echoed with comments that
HKPC had long been facing the dilemma that while the industry always requested for lower-cost services from HKPC, Government subvention could not increase to meet such expectation. said that the Government should think out of the box about its subvention practice.

suggested that, for example, extra funding from different Government departments should be allocated to HKPC on project basis in support of the Chief Executive’s call for the development of Hong Kong’s six crucial industries.

18. said that given the fast-changing economic climate, 3 years should be a reasonable period for business planning. In this connection, felt that the 3-year Forecast exercise could be taken as a strategic plan for HKPC.

19. commented that from the industry’s point of view, WFOEs’ business income was still insignificant. said that as an important platform to provide support to Hong Kong manufacturers in the PRD, the WFOEs should be greatly strengthened which in turn needed additional resources. In this connection, suggested HKPC to resolve this structural issue with the Government.

20. In reply to enquiry, said that the Programme & Estimates and Key Performance Measures (KPM) targets for 2010/11 would be submitted to the 112th Council meeting scheduled on 17 November 2009 for approval.

(Post-meeting note: An addendum to P.C. 32/2009 on “2010/11 Proposed Targets for Key Performance Measures” was tabled at the 112th Council meeting on 17 November 2009 and was approved by the Council.)


III. Programme and Estimates of the BMM Ltd. for 2010/11 (F.C. 13/2009)

22. Invited by to report,
said 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.

23. Continuing, reported that the annual budget for running the BMM Ltd. in 2010/11 was estimated to be HK$6.2M, which was HK$304 less than that of the 2009/10 budget. This amount included HK$5.69M for staff cost, HK$0.02M for capital expenditure and HK$0.49M for recurrent expenses. Apart from providing building management services, since January 2009, BMM Ltd. had also contributed to HKPC’s Green Worklife Campaign in office expenses saving.

24. further reported that HKPC would continue to work with BMM Ltd. on cost cutting efforts to maintain its expenditure at a reasonable level.

25. After discussion, Members endorsed the Programme and Estimates of the BMM Ltd. for 2010/11 for Council’s approval.

IV. Abolition of L4 Charging Rate for WFOEs (F.C. 14/2009)

26. Invited by to report, said that as part of HKPC’s standard cost rates, the L4 rate which only included the cost of project activities, was designated for WFOEs to encourage Hong Kong manufacturers operating in the Mainland, especially the SMEs to use WFOEs’ services and ensure the viable operation and healthy growth of WFOEs in the long term.

however pointed out that, the L4 rate might give rise to questions on whether the minimum rate charged was sufficient to recover all costs incurred by HKPC in carrying out work in the Mainland, including direct costs (recurrent and capital) and overhead costs. Continuing, said that the discounts of project cost given to WFOEs, arising from the use of
the L4 rate, were HK$2.2M in 2008/09.

27. To address the issue, it was proposed to abolish the L4 charging rate for the provision of services to the WFOEs. Upon abolition, an L3 rate (full cost basis) would be used. said that theoretically, this move might translate into an increase in the charging fees by WFOEs on their clients, and might well hinder the role of WFOEs, in particular in the short term. However, added that as a large portion of work committed by the WFOEs with clients was subcontracted back to HKPC, clients could choose to engage HKPC’s services by signing contracts with HKPC directly. Thus, the abolition of the L4 rate should not materially increase the costs to be borne by industries but might hamper the growth of the WFOEs.

28. said that while there had been marked improvement in the financial performance of the WFOEs in 2007/08 and 2008/09, the Management considered it necessary to review the long-term sustainability and operation of HKPC’s subsidiaries in the PRD, including a review on whether the abolition of the L4 rate would affect the future operation of the WFOEs.

29. In response to enquiry, said that the previous plan to replicate a mini HKPC in the PRD had proved to be impractical. explained that based on the current model, while the WFOEs primarily served as the marketing arm for HKPC in the Mainland, they also developed their own business such as testing and certification for Hong Kong manufacturers in the PRD. The core technological competence however was maintained by HKPC.

30. After discussion, Members endorsed the proposal on abolition of the L4 charging rate for WFOEs for Council’s approval.

V. **HKPC 2009/10 Machine Cost Rates** (F.C. 15/2009)

31. Invited by to introduce the paper, said that under a new Standard Practice F7 on “Pricing Policy”, machine cost rates for equipment over HK$1M would be reviewed annually and any changes should be approved by the Management at the Weekly Directors’
Meeting (WDM) before implementation.

32. explained that the rates were derived from the estimated total running cost of the machines (i.e. non-staff costs directly associated with machine operation e.g. maintenance and depreciation etc.) embedded in the Programme and Estimates spread over the annual expected utilization hours.

33. Members noted HKPC’s 2009/10 machine cost rates.


34. Invited by to report, briefed Members that as at 30 September 2009, HKPC’s cash balance was HK$144M. said that under the existing investment strategy, all of HKPC’s funds were placed in time deposits or savings accounts. During April-September 2009, about 55% of cash was placed in Standard Chartered Bank, 23% in Bank of East Asia, 13% in HSBC and 9% in China Construction Bank. The actual bank interest earned by HKPC during the year was HK$0.2M, representing an average return rate of 0.33% which was higher than the 0.22% average interest rate for savings accounts offered by major banks in Hong Kong.

35. In reply to enquiry, said that the rule governing investment of funds was set by the Government and approved by the Financial Secretary.

36. Members noted the quarterly report on investment of HKPC’s funds for the period April-September 2009.

VII. Any Other Business

Attendance Record of FC Members and 2010 Meeting Schedule

37. Referring to the tabled tentative schedule of meetings of the Finance Committee for 2010, considered that while a tentative
schedule of meetings of the Finance Committee for 2010 had been prepared, if there would be joint meetings of the Council and the Finance Committee in future, this could be done and in that event, approval should be sought and justifications be documented. Members agreed.

38. Members noted their attendance record since their first appointment to the Finance Committee and the proposed 2010 FC Meeting Schedule, tabled at the meeting, as follows:

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Date and Time</th>
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<tbody>
<tr>
<td>38th FC meeting</td>
<td>23 March 2010 (Tuesday) 2:30pm</td>
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<tr>
<td>39th FC meeting</td>
<td>27 July 2010 (Tuesday) 2:30pm</td>
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<tr>
<td>40th FC meeting</td>
<td>9 November 2010 (Tuesday) 2:30pm</td>
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VIII. Date and Venue of Next Meeting

39. It was agreed that the date of the next meeting was scheduled for 23 March 2010 at 2:30p.m. and the venue of the next meeting be left open.

40. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:10p.m.