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F.C. 12/2015 (Revised)

**Revised Minutes of the 54th Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 21 July 2015
in the Board Room, 2nd Floor, HKPC Building
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Mr. Victor Ng, MH

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

Absent with Apologies : Mr. Felix Chow Bok-hin

In Attendance : HKPC Chairman - Mr. Stanley Lau Chin-ho,
SBS, MH, JP

In attendance from HKPC :
Dr. Lawrence Cheung Director, Technology Development (Acting)
Mr. Tony Lam Director, Corporate Services
Mr. Gordon Lo Director, Business Management
Ms. Vivian Lin General Manager, Finance and Procurement
Mr. Alfonso Tam Chief Manager, Council Secretariat

Welcome

The Chairman welcomed Mr. Stanley Lau Chin-ho, Council Chairman, who joined the meeting for the first time in attendance and Mr. Desmond Hou, Principal Economist, who attended the meeting for the first time.

Safety Alert Card

Mrs. Agnes Mak, Executive Director, HKPC (ED) referred to the safety alert card tabled at the meeting and said that as part of the safety measures implemented in 2014, the card was compiled for distribution to visitors to the HKPC Building. The card served to remind visitors of the pertinent safety issues and provide essential information such as the emergency

evacuation route which was also indicated by signage on each floor.

Confirmation of Minutes (F.C. 6/2015 Revised)

The Revised Minutes of the 53rd Meeting of the Finance Committee held on 17 March 2015 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. Three-year Strategic Plan of HKPC for 2016/17-2018/19 (F.C. 7/2015)

1. Invited by the Chairman, said that at its 113th meeting held on 30 March 2010, the Council agreed that HKPC should submit a three-year strategic plan annually before the Council considered the Three-year Forecast for the same period. The Council also noted that the proposals under the strategic plan would be translated into concrete initiatives in the subsequent Programme and Estimates exercise subject to availability of resources. then briefed Members on the progress of the 12 corporate goals for business development under the strategy plan for 2015/16 - 2017/18, of which 11 had been achieved. Details were at paragraphs 4-5 and Appendix 1 of the paper.

(Post-meeting Note: the remaining one was related to the application for accreditation under the Qualifications Framework for the Productivity Training Institute (PTI) of HKPC and accreditation for PTI was formally awarded on 13 August 2015.)

2. As regards the 2016/17 - 2018/19 strategic plan, said that the Management had revisited the existing four-pronged strategy approved by the Council and considered that it was still valid. The strategy was anchored on scaling up platforms; creating values for SMEs; sharpening core competencies of HKPC; and developing strategic partnership. The pursuit of this strategy would continue to be guided by the business development corporate goals to meet new and emerging needs of industry. In this connection, 9 new corporate goals had been identified for pursuit under the 2016/17-2018/19 strategic plan and front end preparation work had already started for these new goals, as follows:

- (a) Best practices model (enhanced version) of retail industry (*under strategy of creating value for SMEs*);
- (b) 3D printing (*under strategies of scaling up platforms and creating value for SMEs*);

- (c) Information security for embedded system (*under strategies of scaling up platforms, creating value for SMEs and developing strategic partnership*);
- (d) Novel materials and sensor technology (*under strategies of scaling up platforms and sharpening core competencies*);
- (e) Sector-based automation solution and intelligent robotics technology (*under strategies of scaling up platforms and developing strategic partnership*);
- (f) Biomedical compliance (*under strategies of creating value for SMEs and sharpening core competencies*);
- (g) Industry 4.0 and 中國製造 2025 (*under strategies of creating value for SMEs and sharpening core competencies*);
- (h) Carbon reduction (*under strategies of scaling up platforms, creating value for SMEs and developing strategic partnership*); and
- (i) Green transportation (*under strategies of creating value for SMEs, sharpening core competencies and developing strategic partnership*).

3. said that the proposed strategic plan was to provide a basis for the preparation of the detailed estimates for 2016/17 for the Council's consideration in November 2015. Where necessary, the Management would consider revisiting the strategic plan during the year if there were any fundamental changes in the macro policy environment to ensure that HKPC's strategy was in line with government policy. said that at its 57th meeting held on 14 July 2015, the Business Development Committee (BDC) supported the Management's proposal that, as the current four-pronged strategy had been adopted for 5 years or so, it would be opportune for the Council to conduct a brainstorming session for an overall review of the strategy in late 2015 or early 2016, in preparation for the formulation of the next three-year strategic plan for HKPC to continue to provide focused and effective support to industry.

4. thanked for advice and assured that HKPC's training courses would continue to be developed to match the needs of industry and that they were very often designed to provide relevant training to enable the trainees to take part in the examinations of the professional bodies. Matching industry needs was indeed the guiding principle in creating HKPC's training courses which very often acted as a marketing platform for HKPC's consultancy services.

5. said that, in view of market trend and demand, focus should be given to initiatives relevant to mobile commerce, medical equipment, IT security, green production and food safety. thanked for support and said that these areas were indeed targeted by HKPC's corporate goals, for example, the Hong Kong Software Testing and

certification Centre which strengthened our support services for independent software vendors (ISVs) and mobile apps developers.

6. Members endorsed for the Council's approval the Three-Year Strategic Plan of HKPC for 2016/17 - 2018/19 as outlined in Appendix 2 of the paper.

II. Annual Accounts for the Year 2014/15 (F.C. 8/2015)

7. introduced the paper and said that external income for the year was \$391M which was higher than the budget by \$6.9M or 1.8%. On the expenditure side, total expenditure came to \$385.8M which was \$32.6M or 7.8% less than the budget of \$418.4M. Given the change in the accounting treatment of capital expenditure and depreciation in 2014/15, the EBITDA (i.e. earnings before interest, tax, depreciation and amortization) for 2014/15 was \$38.3M. This was very similar to the restated EBITDA for 2013/14 which was \$39M. When restating the 2014/15 financial result on the 2013/14 accounting basis, the restated 2014/15 financial result before depreciation would become \$9.8M, broadly comparably to \$12.3M in 2013/14. The financial results were largely comparable considering that the 2014/15 result included additional outlay in capital expenditure which had not been budgeted. As regards the value added, while it was below the budget by 2.5%, it was higher than the value added for 2013/14 by 5.3%.

8. said that big ticket expenditure items, such as building maintenance, would create major impact on the financial results. It was important that such expenditure items be processed expeditiously as delays would create extra burden on the financial results of the following years.

9. In reply to , said that recruitment was being pursued and the gap between the budgeted and actual staff emolument was narrowing. But a variance between the budgeted and actual staff emolument was unavoidable given that recruitment was a very time demanding process. Meanwhile, the high turnover rate of staff in 2014/15, at 20%, had not been exactly helpful in narrowing the gap.

11. The Management mentioned that the Audit Committee (AC) considered the EBITDA may be used as an additional accounting information for HKPC's management reporting purposes. Members considered the issue and did not have a strong view against HKPC

adopting the EBITDA as an additional accounting information for HKPC's Management reporting in future.

12. Members endorsed for the Council's approval the Annual Accounts of HKPC for the year ended 31 March 2015 which had also been considered by the Audit Committee at its 34th meeting on 27 June 2014 with no major adverse comments. Members also noted the 2014/15 financial results (paragraph 8 of the paper) of the Automotive Parts and Accessory Systems R&D Centre (APAS Division) which was separately and fully funded by the Government.

III. HKPC 2015/16 Standard Staff Rates (F.C. 9/2015)

13. Members noted that the Management was undertaking a review on its costing and pricing policy based on the concept of full cost recovery, affordability and the intrinsic value of HKPC's services offered. The Management would propose a revised pricing policy with a framework of concession and premium for endorsement and approval by the Finance Committee and the Council respectively in due course.

14. Pending the review results, and in accordance with Standard Practice F7, Members approved the proposed revised standard staff cost rates for 2015/16 in accordance with the established practice as set out in Appendix 1 of the paper.

IV. Financial Performance of HKPC for the First Quarter of 2015/16 (April – June 2015) (F.C. 10/2015)

15. Invited by the Chairman, introduced the paper which set out the financial performance of HKPC and its three branches for the period April to June 2015. For the first quarter of 2015/16, HKPC's total fee income was \$82.1M, which was less than the budget by \$19.5M (or 19.2%) mainly due to less than budgeted income from consultancy projects and public training courses. The total expenditure was \$101.9M, or 6.9% less than the budget, due mainly to under expenditure in staff emolument and other fixed expenses. The loss for the period was \$8.4M which was lower than the budgeted surplus by \$9.8M. During the same period, the provision for staff annual leave was reduced by 5.4% to \$15.3M in June 2015 compared to a year ago, and the number of staff annual leave days with financial implication was also reduced from 8,390 to 7,455, or by 11.1%.

16. Members considered the report and their views are summarized below:

- (a) billing should closely match the amount of work done for client projects;
- (b) a staged payment schedule was advisable to facilitate earlier income realization;
- (c) a healthy stock of projects in the pipeline should always be maintained; and
- (d) a balance should be maintained between client and government funding schemes projects.

17. Members noted the financial performance of HKPC and its three branches for the period April to June 2015. Members also noted the financial performance of the APAS Division which was separately and fully funded by the Government.

V. Quarterly Report on HKPC's Funds (F.C. 11/2015)

18. Members noted that as at 30 June 2015, HKPC's cash balance was \$228M. All HKPC's funds were placed in time deposits or savings accounts. The actual bank interest income earned by HKPC in 2014/15 was \$0.7M, representing an average return rate of 0.6%. The actual bank interest earned in the first quarter of 2015/16 was \$0.1M, representing an average return rate of 0.3%. Both return rates were higher than the average interest rate for savings accounts offered by major banks in Hong Kong.

19. Members also noted that a new investment framework with extended scope of investment in "Certificate of Deposits" and "Bonds/Notes" was approved by the Financial Secretary on 3 June 2015. HKPC would explore investment opportunities in these instruments but it was anticipated that the margin for return would be low as HKPC could only buy from the primary market.

VI. Any Other Business

(A) Attendance Record of FC Members

20. Members noted their attendance record in 2015 tabled at the meeting.

VII. Date of Next Meeting

21. It was agreed that the date of the next meeting was scheduled for 17 November 2015 at 2:30pm.

22. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 5:00pm.