

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

**F.C. 18/2011 (Revised)**

**Revised Minutes of the 43<sup>rd</sup> Meeting of the Finance Committee  
held at 2:30p.m. on Tuesday, 15 November 2011  
in Room 1020, 1<sup>st</sup> Floor, HKPC Building  
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

**Present** : Chairman - Mr. Victor Ng  
Members - Mr. Clement Chen, BBS, JP  
Mr. Davey Chung  
Mr. Adolph Leung  
(representing Mrs. Helen Chan, JP)  
Mrs. Agnes Mak Tang Pik-ye, MH, JP  
Dr. David Ng

**Absent with Apologies:** Dr. Fan Cheuk-hung

**In attendance from HKPC :**

Mr. Edmund Sung	Director, Business Innovation
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Jonathan Ho	General Manager, Corporate Communications
Dr. Samuel Leung	General Manager, Finance and Procurement
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Miranda Yeap	Senior Manager, Council Secretariat

**Confirmation of Minutes (F.C. 12/2011 Revised)**

The Revised Minutes of the 42<sup>nd</sup> Meeting of the Finance Committee held on 19 July 2011 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. Programme and Estimates of HKPC for 2012/13 and Three-Year Forecast 2012/13-2014/15 of HKPC Income and Expenditure (F.C. 13/2011)**

1. Invited by the Chairman to report, \_\_\_\_\_ said that that the Council agreed at its 96<sup>th</sup> meeting on 21 July 2004 that the annual Programme and Estimates and Three-year Forecast should be combined as one exercise so that HKPC would be in a position to do the detailed budget and activity planning for the first year as a basis for the forecast of the following two years.

2. \_\_\_\_\_ said that this paper contained the Three-year Forecast for 2012/13-2014/15, comprising the detailed Programme and Estimates for 2012/13 and Forecast of Income and Expenditure for 2013/14-2014/15 for HKPC, premised upon the Three-Year Strategic Plan for 2012/13-2014/15, based upon the four-pronged strategy and the five strategic themes expanding on HKPC's four core competencies approved by the Council at its 117<sup>th</sup> meeting held on 26 July 2011. For planning purpose, the paper also contained the forecast for the WFOEs which did not form part of HKPC's income and expenditure for the purpose of subvention requirement.

3. Members noted that the Programme and Estimates had been prepared with close regard to the macro external factors, i.e. the threats as well as opportunities for the business of HKPC in the midst of an anticipated economic downturn and the ensuing uncertainties for the coming three years. At the same time, the Management was wary that an income target should be set at a level that would continue to drive staff performance with the aim that ultimately divisions' income would be sufficient to cover their respective staff costs. With HKPC's subvention being maintained at a constant level, the generation of increased income over time, where practicable, would be necessary to cater for inflationary adjustments for staff salaries and the real need to build up a reasonably sized reserve to provide for ad hoc expenses such as major capital investment and critical building maintenance demands. With these in view, it was planned to increase total operating income for 2012/13 by 1.5% to \$350.7M while expenditure after subvention was expected to increase marginally by 0.9% to \$519.7M, resulting in a surplus of \$9M. These estimates had been arrived at in consultation with the general managers individually, having regard to the business outlook for their divisions, the projects on hand (in progress and awaiting implementation), as well as the latest trends in technologies and management models that would need to be introduced to industry.

4. In reply to \_\_\_\_\_, \_\_\_\_\_ said that, while there was some decline in certain business lines, the overall order on hand was still healthy and divisions were striving their best to meet the 2011/12 income targets focusing on early delivery of projects secured earlier which were under different stages of implementation.

6. Continuing, \_\_\_\_\_ said that the Management was well aware of the difficult times ahead and the significant drop in service demands from the home appliances and toys sector ahead of the festive season was a clear indication. Apart from the orderly delivery of those projects on hand, we would aim to induce more business via free seminars and technology promotions. Separately, we also anticipated that the Government would allocate more resources to help industries in difficult times. Although Government subvention would not be increased, HKPC's active participation in Government-funding scheme projects should help towards attaining the income target.

7. \_\_\_\_\_ said that as HKPC's services encompassed a wide range of sectors and technology areas, a breakdown of the expenditure into the respective areas and the five themes would facilitate Members to better assess the prospects for achieving the projected income by year end and Members with industry background would be able to advise on the more promising areas for the coming years. \_\_\_\_\_ referred Members to Appendix 4 of the paper which contained the analysis of income and expenditure by core competence and activity type i.e. consultancy, training, manufacturing support, publication and others, exhibition/study mission/conference and government funded projects.

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

- (a) HKPC's Three-Year Forecast for 2012/13-2014/15; and
- (b) the detailed Programme and Estimates of HKPC for 2012/13 which included the staff establishment of 698 endorsed by the Staffing Committee at its 40<sup>th</sup> meeting held on 26 October 2011.

10. Members also noted:

- (a) the 3-Year Forecast of WFOEs for 2012/13-2014/15, which did not form part of HKPC's income and expenditure estimates for

the purpose of subvention requirement; and

- (b) the proposed targets for the Key Performance Indicators (KPIs) in 2012/13 at Appendix 3 to the paper which would be submitted for the Council's agreement prior to ITC's approval.

## **II. Utilization of Reserve (F.C. 14/2011)**

11. Invited by the Chairman to brief Members, said that HKPC, under the Memorandum of Administrative Arrangements signed between HKPC and the Innovation and Technology Commission (ITC), might freely use its reserves for any activities lawfully permitted under the HKPC Ordinance and in furtherance of HKPC's objectives within its service focus. As at March 2011, HKPC had an accumulated reserve of \$39.7M. HKPC's Management considered it important to establish a framework with the following parameters to ensure the best use of the reserve which:

- (a) should preferably be confined to expenditure of one-off nature, as opposed to expenditure of recurrent nature;
- (b) on the basis of (a) above, must absorb any financial implications of recurrent nature arising from the use of reserve within the existing resources of HKPC or from income generated from it;
- (c) should not cover initiatives that should be able to be covered under the yearly Programme and Estimates exercise; and
- (d) should preferably focus on initiatives which might benefit HKPC in the long run, whether such initiatives were of business development nature or of internal system improvement nature.

In addition, the Management would submit to the Finance Committee for endorsement any proposal for the use of reserve before obtaining the Council's approval. Hence, the Management could not utilize reserve without the Council's approval.

12. said that the Management proposed to use no more than for implementing an Enterprise Resource Planning (ERP) system. At present, the degree of integration within the existing computer systems in HKPC was less than optimal to enable the efficient generation of management information, including financial, budgeting, procurement, project management, customer relationship management and business intelligence aspects of HKPC's daily operations to present a macro view to facilitate the decision-making and monitoring process of the Management. If approved, the ERP system would take about two years

time to implement and the initial estimated cost would be about .

13. In response to enquiry of whether the ERP system could wait for another two years, explained that the existing systems were grossly inadequate to provide integrated support for managing projects effectively and producing management reports efficiently. Thus there was an urgent need to establish a total integrated computer system and strengthen our management tools to enhance corporate governance.

14. On query over whether the use of reserve would have implications on the profit and loss statement, said that if Council approved the use of reserve through formal procedures, it should be properly reflected in the Appropriation Account. said that we were still examining this issue with HKPC's auditor and our bottom line was that even if the use of reserve would bring in profit-and-loss effect, that would be separately accounted for. Members agreed that the Management would clarify with the HKPC's auditor on the proper mode of presentation. Members noted that the selection of the ERP system contractor, if approved, would follow formal tender procedures.

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

- (a) the framework of utilizing reserve as set out in paragraph 11 above; and
- (b) the use of for implementing an in-house ERP system.

[Post-meeting note: At the 118<sup>th</sup> Council meeting held on 22 November 2011, Members noted that the impact of the utilization of from HKPC's reserve would be reflected in the estimates for 2012/13 and beyond on the basis that IT related capital investment would typically depreciate over 3 years. P.C. 24/2011 Revised (Programme and Estimates of HKPC for 2012/13 and Three-year Forecast for 2012/13 - 2014/15 of HKPC Income and Expenditure) was circulated to Council Members for their information on 24 November 2011.]

### **III. HKPC Standard Staff Cost Rates (F.C. 15/2011)**

16. 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 2011/12 pay adjustment at its 117<sup>th</sup> meeting on 26 July 2011. The salary adjustments with effect from 1 April 2011 ranged from +4.67% to +7.24%, as shown in paragraph 8 of the paper. Based on salary adjustment and the overhead cost attributable to project activities, the standard staff cost rates for 2012/13 had been calculated.

17. Continuing, said that for 2012/13, the variation in the L1 cost rates for 10 staff grades would be in the range of +5.8% to +8.9%. The variation in the L2 cost rate would be in the range of +5.2% to +8.8% and the variation in the range of L3 cost rate would be in the range of +5% to +8.9% respectively. As for the L8 cost rates, no change was proposed for 3 staff grades, while there were proposed upward adjustments of +4.5% for 4 grades, +5.9% for one grade and +7.1% for 3 grades.

18. After discussion, Members endorsed the proposed new HKPC Standard Staff Cost Rates for 2012/13.

#### **IV. Financial Performance of HKPC for the First Two Quarters of 2011/12 (April – September 2011) (F.C. 16/2011)**

19. Invited by the Chairman to brief Members, reported that for the first two quarters of 2011/12, HKPC's total fee income was \$156.2M, which was less than the budget by HK\$9.5M or 6%. Total expenditure for the same period was HK\$240.4M, or 4% less than the budget, mainly due to savings in staff emoluments and capital expenditure. Total surplus for April to September 2011 amounted to HK\$6.2M resulting from cost savings in staff emolument and major capital expenditure.

20. Continuing, reported that the provision for staff annual leave was reduced by 4% to HK\$23.3M in September 2011 from a year ago. During the same period, the number of staff annual leave days with financial implication had also been reduced by 8%, from 14,245 to 13,150.

22. In response to enquiry on the position of leave management, said that whilst there was no fixed quantitative target set by the Council, the Management had strived to achieve reduction of unspent leave days accumulated by staff similar to what it managed in previous year. said that whilst leave clearance would continue to be a focus of the Management, the crucial success factor would depend on the level of staff's cooperation.

23. took the opportunity to share with Members his views on the deficit position of the Technology Branch. considered that other than the drop in demand for services in the European and American markets, the preferential emphasis of the APAS Board for collaborative projects had also in a way adversely affected the performance of the Automotive and Electronics Division of HKPC. Also, as a result of the recent reorganization, the new Automation Service Division would be in a stage of investment. More resources would correspondingly be channeled to the Environmental Management Division with greater business potential and to bid for Government projects. responded that under the Innovation and Technology Fund (ITF), all worthwhile projects for the industry would be considered for funding support, be they platform or collaborative projects, depending on their individual merits.

24. Members noted HKPC's financial performance of the first two quarters of 2011/12 (April – September 2011).

#### **V. Quarterly Report on Investment of HKPC's Funds (April – September 2011) (F.C. 17/2011)**

25. Invited by the Chairman to report, briefed Members that as at 30 September 2011, HKPC's cash balance was HK\$144M (as compared to \$154M last reported for June 2011), including \$17M for government funded projects, \$23M as provision for accumulated staff leave and \$104M being working capital to fund current operations. He said that under the existing investment strategy, all of HKPC's funds were placed in time deposits or savings accounts.

The actual bank interest income earned by HKPC during the first two quarters of 2011/12 was HK\$0.51M, representing an average return rate of 0.51% which was higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong.

26. Given the relatively low interest rate of HK dollar, \_\_\_\_\_ said that it would be helpful for HKPC to have a more flexible investment framework as previously proposed but put on hold pending the formulation of the government's investment guidelines. \_\_\_\_\_ undertook to check the progress of the Government's Review of Investment Guidelines.

27. Members noted the quarterly report on investment of HKPC's funds for the period April-September 2011 as at 30 September 2011.

## **VI. Any Other Business**

### **(A) Attendance Record of FC Members**

28. Members noted their attendance record in 2011 tabled at the meeting.

### **(B) 2012 Meeting Schedule**

29. Members noted the proposed 2012 FC Meeting Schedule which was tabled at the meeting, as follows:

<b>Meeting</b>	<b>Date and Time</b>
44 <sup>th</sup> FC meeting	20 March 2012 (Tuesday) 2:30pm
45 <sup>th</sup> FC meeting	24 July 2012 (Tuesday) 2:30pm
46 <sup>th</sup> FC meeting	20 November 2012 (Tuesday) 2:30pm

30. 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.

## **VII. Date of Next Meeting**

31. It was agreed that the date of the next meeting was scheduled for 20 March 2012 at 2:30pm.

32. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:55pm.