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F.C. 17/2015 (Revised)

**Revised Minutes of the 55th Meeting of the Finance Committee
held at 2:00p.m. on Tuesday, 17 November 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. Rayson Chan
Mr. Adolph Leung, JP
(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

Absent with Apologies : Mr. Felix Chow Bok-hin

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

In Attendance from the ITC : Mr. B.S. Yeung

In attendance from HKPC :

Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Jonathan Ho	General Manager, Corporate Communication and Marketing
Ms. Vivian Lin	General Manager, Finance and Procurement
Mr. Alfonso Tam	Chief Manager, Council Secretariat

Welcome

The Chairman welcomed the Innovation and Technology Commission representative, Mr. Rayson Chan, who attended the meeting for the first time.

Confirmation of Minutes (F.C. 12/2015 Revised)

The Revised Minutes of the 54th Meeting of the Finance Committee held on 21 July 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. Programme and Estimates of HKPC for 2016/17 and Three-Year Forecast 2016/17 - 2018/19 of HKPC Income and Expenditure (F.C. 13/2015)

2. then briefed Members on the strategic framework for the forecast exercise and said that 9 corporate goals were identified in 2015 and they were in different stages of front end preparation work for service launch in 2016/17. The current status of these goals and how they would be pursued in the context of the 2016/17 Programme and Estimates were set out at Appendix 3 of the paper. In preparation for the setting of corporate goals for the next Three-Year Strategic Plan, several areas had been identified for development in 2016/17, including:

- (a) Smart transport and security;
- (b) Big data adoption;
- (c) Industrial wastewater treatment technology;
- (d) IP trading;
- (e) Intelligent business automation;
- (f) Advanced food processing technology; and
- (g) Advanced composite material manufacturing.

Due process would be conducted through consultation with industry stakeholders and associations, communication with existing clients and project partners and intra-corporation discussion to ascertain the appropriateness of pursuing these areas as corporate goals. Meanwhile, HKPC would look to organizing events (in the form of symposiums, conferences etc.) of international standing in 5 focus areas supported by the Business Development Committee at its 58th meeting held on 10 November 2015, namely: Industry 4.0, 中國製造 2025, intelligent robotics, eBus and environmental management. The target was to hold these events in the coming year or so to expand HKPC's networks, source new technologies and promote HKPC's services and standing.

3. With regard to the Key Performance Indicators (KPIs) for HKPC, said that the set of KPIs had been revised from 30 to 22 with the Council's approval at its 127th meeting held on 26 November 2014. Further to the discussion at the 129th Council meeting held on 29 July 2015 on how meaningful individual KPIs were in measuring HKPC's performance, a review was conducted in consultation with the Innovation and Technology Commission (ITC) and the following changes would be

adopted starting from 2016/17:

- (a) to revise the presentation format of KPIs by dividing the 22 KPIs into 12 core KPIs and 10 other KPIs;
- (b) to introduce a new core KPI of “total external income” to provide a clear indication of HKPC’s overall financial performance; and
- (c) to modify the existing KPI of “percentage of customers reporting productivity increase” to “a score of 7.5 or above out of 10 in terms of productivity gain by clients” to closely reflect the outcome and effectiveness of consultancy projects for clients.

The revised set of KPIs, as agreed with the ITC, containing 23 indicators presented in 2 parts, as well as the proposed targets for 2016/17, were laid out at Appendix 5 of the paper.

4. said that for planning purpose, the paper also contained the forecasts for the Mainland subsidiaries and the APAS Division which did not form part of HKPC’s income and expenditure for the purpose of subvention requirement. On the operation of the WFOEs, a structural review was being led by the Council Chairman with a view to consolidating HKPC’s Mainland subsidiaries as the current mode of operation via 3 WFOEs in different locations within the PRD was difficult and might not speak business savvy.

5. Members were then briefed by on the financial estimates and forecast. On the overall forecast, external income was estimated to increase by 15% from \$429.4M in 2016/17 to \$494M in 2018/19, while expenditure was estimated to increase by 10.8%. The income/expenditure ratio was estimated to increase from 69.2% in 2016/17 to 71.9% in 2018/19.

6. With regard to the estimates for 2016/17, said that total income for 2016/17 came to \$429.4M while total expenditure was projected to be \$620.3M.

9. On the estimates, said that given the stagnant subvention level, the dampened market condition and the strong Hong Kong dollar, there was a real limit to what HKPC could achieve in terms of generating increased income. This in turn would make control of expenditure a more pressing issue, especially staff cost which was the single largest expenditure item. In response, said that this

was a structural issue which would take time to rationalize, as it involved many complicated and intertwined issues, such as staff grading and a more market oriented reward system, a balance of staff tilted more towards private sector project work, a more business oriented mentality among staff, a move towards a more commercial operation vis-à-vis HKPC's public mission role, pursuance of the income per head commercial concept, recovering most if not all of the true cost of HKPC's services, and a shift towards more private client projects which allowed higher margin for revenue generation.

10. agreed that all these issues would take time to resolve or achieve. With the SAP system, the Management was in a better position to monitor project progress, plan business activities, review efficiency, and take early remedial actions as necessary based on monthly reviews with the division General Managers and Units Heads. The General Managers were committed to monitoring and improving staff utilization. In this connection, said that staff utilization of the operating divisions was over 80% which was not exactly a low figure considering that staff were at the same time also engaged in project prospection work and non-fee charging public mission activities.

11. supported the 7 areas identified for exploration as corporate goals for business development into fee earning services. agreed with that more niche and unique services should be developed both for income opportunities and for leading the market by introducing the latest in technology applications and business models. In response, said that this was indeed the core philosophy of HKPC's assistance to enterprises through our integrated support. In agreement, said that it was very important for HKPC to systematically promote its integrated services to raise market awareness, thereby turning its capabilities into business opportunities.

12. Members endorsed for the Council's approval:

- (a) HKPC's Three-Year Forecast for 2016/17-2018/19 subject to it being revised to incorporate the building works mentioned in paragraph 15 of the paper (paragraph 8 above);
- (b) the detailed Programme and Estimates of HKPC for 2016/17 which included the overall staff establishment of 695 (including the APAS Division of which the establishment size is 33) endorsed by the Staffing Committee at its 52nd meeting held on 3 November 2015; and
- (c) the proposed enhancement to the KPIs starting from 2016/17 and the

proposed targets for 2016/17 at Appendix 5 of the paper.

Separately, Members also noted the Three-Year Forecast of Mainland subsidiaries for 2016/17-2018/19 which does not form part of HKPC's income and expenditure forecast for the purpose of subvention requirement.

III. Financial Performance of HKPC for the First Two Quarters of 2015/16 (April - September 2015) (F.C. 15/2015)

18. Members noted the financial performance of HKPC and its branches for the period April to September 2015. For the first two quarters of 2015/16, HKPC's total external income was \$189.1M, which was lower than the budget by \$14.1M (or 6.9%). Total expenditure was \$202.6M, or 7.5% less than the budget. The financial result for the period was less than the budget by \$5.2M. During the same period, the provision for staff annual leave was reduced by 1.6% to \$15.3M in September 2015 compared to a year ago, and the number of staff annual leave days with financial implication was also reduced from 8,135 to 7,107, or by 12.6%. Members noted that while there was no longer a target assigned by the Council for the reduction of accumulated leave days with financial implication, the Management would continue to encourage relevant staff to clear their accumulated leave days by 10% annually via administrative measures, such as annual leave plans.

19. Members also noted:

- (a) the half-yearly performance of HKPC in terms of the Key Performance Indicators (KPIs) which were provisional figures and might require adjustment before being finalized; and
- (b) the financial performance of Automotive Parts and Accessory Systems R&D Centre (APAS) Division for the same period which was separately funded by ITF.

IV. Quarterly Report on HKPC's Funds (F.C. 16/2015)

20. Members noted that as at 30 September 2015, HKPC's cash balance was \$214M. The actual bank interest income earned by HKPC in the first two quarters of 2015/16 was \$0.25M, representing an average return rate of 0.54%, which was higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong. Members also

noted that no investment had been made in Bonds/Notes and Certificates of Deposits which were added to the investment framework of HKPC after approval by the Financial Secretary in June 2015. This was because these products so far offered a lower rate of return and flexibility than time deposit.

V. Any Other Business

(A) Attendance Record of FC Members

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

(B) 2016 Meeting Schedule

22. Members noted the proposed 2016 FC meeting schedule tabled at the meeting, as follows:

Meeting	Date and Time
56 th FC meeting	19 April 2016 (Tuesday) 2:30pm
57 th FC meeting	19 July 2016 (Tuesday) 2:30pm
58 th FC meeting	22 November 2016 (Tuesday) 2:30pm

VI. Date of Next Meeting

23. It was agreed that the date of the next meeting was scheduled for 19 April 2016 at 2:30pm.

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