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

F.C. 14/2013 (Revised)

Revised Minutes of the 49th Meeting of the Finance Committee held at 2:30p.m. on Monday, 18 November 2013 in the Board Room, 2nd Floor, HKPC Building 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon

Present :	Chairman -	Mr. Victor Ng, MH
	Members -	Mr. Adolph Leung, JP (representing Mrs. Helen Chan, JP) Mrs. Agnes Mak Tang Pik-yee, MH, JP Dr. David Ng Dr. Dennis Ng, BBS, MH Mr. Frank Tsang
Absent with Apologies :		Mr. Clement Chen, SBS, JP

In attendance from HKPC :

Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Edmond Che	General Manager, Finance and Procurement
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Chief Manager, Council Secretariat
Ms. Gillian Luk	Senior Manager, Council Secretariat

Confirmation of Minutes (F.C. 9/2013 Revised)

The Revised Minutes of the 48th Meeting of the Finance Committee held on 23 July 2013 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 2014/15 and Three-Year Forecast 2014/15-2016/17 of HKPC Income and Expenditure (F.C. 10/2013)

1. Invited by the Chairman, introduced the paper and said that the Three-year Forecast for 2014/15 2016/17, comprising the detailed Programme and Estimates (P&E) for 2014/15, was premised on the Three-year Strategic Plan approved by Council at its 123rd meeting held on 30 July 2013. then briefed Members on the major initiatives undertaken and new initiatives being actively pursued under the four-pronged strategy which were set out in paragraphs five and six of the paper. Separately, the forecast and estimates had also been prepared with regard to collaboration with the ITF R&D Centres and quangoes, the need to conduct industry studies on specific sectors to understand the problems and issues faced by them and what would be required to address their present and emerging needs, and the pursuance of Mainland-Hong Kong technological collaboration to provide technical support to industry via the establishment of branch centres of PRC National Engineering Research Centres in Hong Kong. In terms of strategic marketing and enhanced client management, two marketing and industry support units had been established at the Technology Development Branch and the Business Innovation Branch to devise comprehensive marketing strategies that harnessed HKPC's multiple strengths to promote value-added, cross-disciplinary total solutions to different groups of clients. It was anticipated that the two units would drive the gainful horizontal alignment of HKPC's services for effective support to clients and facilitate HKPC to extend and deepen its reach to industry and strengthen our strategic partnership with the enterprises and the associations.

2. In terms of financial forecast, said that income and expenditure would increase by 9.9% and 6.5% respectively during the forecast period with the income and expenditure ratio rising from 68.4% to 70.6%. For the year 2014/15, the estimates for income and expenditure were HK$384.1M and HK$561.5M respectively, resulting in an income and expenditure ratio of 68.4% and a financial surplus of HK$10M before depreciation and maintenance for the ERP system. Value added would continue to rise and an estimated 5% increase was forecasted.

3. In reply to , said that the 4% vacancy for the established posts in the baseline forecast was based on the total establishment of HKPC less the assumed vacancy rate of 4%, given the turnover in reality. As full utilization of HKPC's approved establishment was not envisaged at a given point of time taking account of ongoing staff movements and the long time required to identify and

recruit the right candidates, this was both a practical and reasonable arrangement to reflect HKPC's true staffing needs and at the same time narrow the gap between the staff establishment and staff strength.

4. With regard to enquiry on the increase in the HKPC Building running cost, said that the HKPC Building was more than 20 years old and increased budget provision was required to meet rising building maintenance and repair expenses. HKPC had engaged a professional consultant to conduct an overall review on the conditions of the HKPC Building and to advise on the likely financial requirement for all the required works as well as critical repairs and improvement works that required priority attention in the next two years. A staged approach was necessary taking into account affordability considerations and the impact of such expenses on HKPC's financial results.

5. In reply to , said that with subvention maintained at a constant level, there was increasing need for HKPC to raise the income margin of projects and to avoid conducting pure procurement for clients as far as possible. As part of an education process, the value added concept had been introduced and used to measure financial performance which would not be counted on the basis of external income generated. Meanwhile, the Management had also ensured that vacant positions would not be filled automatically and that recruitment would need to be fully justified having regard to business need and the opportunity and potential for functional re-alignment.

6. said that the Management should help to reduce staff's resistance to change and ensure that the new ERP system, when launched, would really provide the necessary facilitation support to staff in budget planning and project monitoring. In reply, said that in preparation for the launch of the new ERP system, staff were being trained with tutorials and examination as the switch over to the new system would be very demanding to staff in terms of time and efforts devoted to project management. In general, the overall sentiment was positive and receptive and there was determination to harness the new ERP system. In response to remark that HKPC's charging rates should be reviewed, said that as indicated at an earlier meeting, more systematic and transparent project management as a result of implementing the new ERP system would shed further light on the relationship between HKPC's business activities and the charging rates together with the underlining philosophy for the pricing of HKPC's services and the pricing issue would be revisited when data was available.

7. said that the new ERP system would provide the necessary technical and system support, but the move towards prudent and responsible project planning and management would require a mind

set change in staff which hopefully would culminate to a cultural change in the organization. In this connection, said that was very encouraged to see that some staff showed a clear understanding of the need for better project management and were supportive of implementing the new system so much so that they compiled a simplified version of the user manual for training purposes on their own initiative.

8. In reply to , said that, as a contingency measure, the existing project management system would be maintained for some time after the launch of the new ERP system. In the worst case scenario, HKPC could fall back on the old system without creating major problems as the system had minimal interface with external parties.

9. referred to the Director of Audit's report on the ITF R&D Centres and asked whether self-financing for APAS was the ultimate target. In reply, said that self-financing for the R&D Centres was a very long term vision when the Centres were established. Given the primary objective of the R&D Centres to act as a focal point to co-ordinate and drive applied R&D in their respective technology areas and their relatively short history, achieving self-financing would not be the most important consideration of the Government at this point of time. Self-financing was also not the goal of many similar and more established R&D institutions in other countries. ITC would review whether this long term vision for the R&D Centres was realistic given the experience in the past few years and the projection of their future operations. That said, ITC would continue to monitor and review the cost-effectiveness of the R&D Centres. In this regard, said that it was encouraging to note the substantial improvement in the performance of APAS after its merger with HKPC in November 2012 which proved that the move was in the right direction.

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

(a) HKPC's Three-year Forecast for 2014/15 - 2016/17; and

(b) the detailed Programme and Estimates of HKPC for 2014/15 which included the overall staff establishment of 695 (including the APAS Division of which the establishment size was 33) endorsed by the Staffing Committee at its 46th meeting held on 12 November 2013.

Separately, Members noted:

(a) the Three-year Forecast of the WFOEs for 2014/15 -2016/17 which did not form part of HKPC's income and expenditure forecast for the purpose of subvention requirement; and

(b) the proposed targets for the KPIs in 2014/15 at Appendix 3 which would be submitted for the Council's agreement prior to ITC's approval.

II. <u>Utilization of Reserve</u> (F.C. 11/2013)

11. Invited by , introduced the paper and said that it was proposed to use HK$5M from HKPC's reserve to procure a high precision 5-axis vertical machine to enhance the core competence of HKPC in higher degree precision polynomial and advanced freeform optics components machining. The aim was to provide one-stop consultancy service on advanced machining to manufacturers, especially SMEs, who now had to resort to overseas suppliers in the US, UK and Japan for service support which was undesirable as it would significantly increase both the product development cost and time, thereby undermining the competitiveness of these companies. Enhanced support in advanced machining services would also lower the technology entry barrier for Hong Kong manufacturers, especially SMEs, to develop their ODM/OBM business. The proposed facility would benefit various high precision and high value adding industry sectors with growth potential, in particular, the optics and automotive, biomedical devices and telecommunications and photonics sectors. Nine related trade and industry associations were positive about HKPC's proposal and they would formalize their support in writing.

12. said that the proposal was supported by the Business Development Committee at its 52nd meeting held on 5 November 2013. On the advice of the Business Development Committee, it had also been ascertained that the proposed machine and related set up was not available in Hong Kong, and that the capacity of the proposed machine would cater to different job requirements for handling work pieces of different sizes to ensure a wide range of applications. The proposal was in accordance with the approved parameters for utilizing the reserve. It was anticipated that the cost of the machine would be recouped in six to seven years based on income from advanced freeform optics machining consultancy, estimated at HK$0.5M to HK$0.7M in the first two years, rising to around HK$1.2M starting the third year.

13. supported the proposal and said that a local facility coupled with HKPC's consultancy support, would help increase the competitiveness of Hong Kong companies, especially SMEs, by shortening the product development time and reducing the associated development cost.

14. In reply to , said that the proposed machine was the first of its kind in Hong Kong and had an estimated life of around ten years. But it was anticipated that the machine would

continue to provide service beyond this ten-year period to meet lower end demands.

15. referred to the current HKPC policy on the depreciation of capital assets and said that it was useful to match the life of a capital asset with the depreciation period rather than sticking to a fixed depreciation methodology. Such arrangement was also advisable accounting wise to accurately reflect the situation. The Management should consider whether a review of the policy was opportune.

16. Members endorsed for Council's approval the use of HK$5M from HKPC's reserve for the procurement of a high precision 5-axis vertical machine to enhance HKPC's core competence for the provision of one-stop advance precision machining service for freeform surfaces to meet industry needs.

III. Financial Performance of HKPC for the First Two Quarters of 2013/14 (April – September 2013) (F.C. 12/2013)

17. Members noted the financial performance of HKPC for the first half of 2013/14 with total fee income at HK$161.6M (12.23% below budget) and total expenditure at HK$181.7M (11.1% below budget), producing a budget surplus of HK$4.5M. Based on the projects on hand and those in the pipeline, there was controlled optimism that the annual income target would be met. Separately, Members also noted that up to September 2013, the total provision for staff annual leave was reduced by 7.3% to HK$19.6M and the total number of leave days was reduced by 11.3% to 10,693 days.

IV. Quarterly Report on HKPC's Funds (F.C. 13/2013)

18. Members noted that as at 30 September 2013, HKPC's cash balance was HK$169M which was placed in time deposits or saving accounts according to the existing investment framework. The actual bank interest earned for the first half of 2013/14 was HK$0.44M, representing an average return rate of 0.74% which was higher than the average interest rate of around 0.01% for savings account currently offered by the major banks in Hong Kong.

V. Any Other Business

(A) Attendance Record of FC Members

19. Members noted their attendance record in 2013 tabled at the meeting.

(B) 2014 Meeting Schedule

20. Members noted the proposed 2014 FC Meeting Schedule tabled at the meeting, as follows:

Meeting	**Date and Time**
50th FC meeting	18 March 2014 (Tuesday) 2:30pm
51st FC meeting	22 July 2014 (Tuesday) 2:30pm
52nd FC meeting	18 November 2014 (Tuesday) 2:30pm

VI. Date of Next Meeting

21. It was agreed that the date of the next meeting was scheduled for 18 March 2014 at 2:30pm.

22. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:35pm.