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F.C. 15/2012 (Revised)

**Revised Minutes of the 46th Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 20 November 2012
in the Board Room, 2nd Floor, HKPC Building
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Mr. Victor Ng, MH

Members - Mr. Clement Chen, BBS, JP
Mr. Adolph Leung, JP
(representing Mrs. Helen Chan, JP)
Mrs. Agnes Mak Tang Pik-ye, MH, JP
Dr. David Ng
Dr. Dennis Ng, MH
Mr. Frank Tsang

In attendance from HKPC :

Mr. Leo Lam	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

Welcome

The Chairman welcomed Mr. Frank Tsang, Assistant Commissioner for Innovation and Technology who attended the meeting for the first time.

Confirmation of Minutes (F.C. 9/2012 Revised)

The Revised Minutes of the 45th Meeting of the Finance Committee held on 24 July 2012 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. Matters Arising

II. Programme and Estimates of HKPC for 2013/14 and Three-Year Forecast 2013/14-2015/16 of HKPC Income and Expenditure (F.C. 11/2012)

3. Invited by the Chairman to report, introduced the paper and said that the Three-year Forecast for 2013/14-2015/16, comprising the detailed Programme and Estimates for 2013/14 and Forecast of Income and Expenditure for 2014/15-2015/16 for HKPC, was premised upon the Three-Year Strategic Plan for 2013/14-2015/16, based upon the four-pronged strategy, guided by HKPC's Vision, Mission and Values (VMV) and expanding on HKPC's four core competencies approved by the Council at its 120th meeting held on 31 July 2012. 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.

4. said that the Programme and Estimates had been prepared with close regard to the industry needs, especially those of the SMEs, as well as the macro external factors, i.e. the threats as well as opportunities for the business of HKPC. In this connection, HKPC had, in accordance with the latest three Year Strategic Plan, set up the new CERT Centre, launched the cross sector 創+造 配對計劃, established the Automation Services Division to closely collaborate with the APAS R&D Centre which had merged with HKPC on 1 November 2012, continued to develop business opportunities in Hong Kong for industry processing rare earth materials, proactively pursued the commercialization of technologies and continued to provide integrated upgrading and transformation support through the PRD TURN programme. In addition, HKPC would continue its focus on the following major initiatives for cross industry support, namely, BUD Programme, SME One, CarbonSmart, Watch Movement Components and Subassemblies Testing Laboratory, Intelligent Manufacturing System and Expanded Electromagnetic Compatibility (EMC) Testing Services.

5. In response to question over the feasibility of achieving income increase with a stable headcount, said that, with government subvention maintained at a constant level, divisions' income targets were now set at a level that would, for planning

purpose, drive staff performance with the aim that divisions' income would rise gradually to eventually cover their respective staff costs. In this connection, subvention would be centralized under the corporate portfolio and not distributed to divisions upfront so that divisions' financial performance would be clearly captured. For an accurate and full reflection of staff utilization, staff time spent on public mission activities, though such time spent was not chargeable to projects, would also be recorded for enhanced financial management and resource deployment purposes. These arrangements were also targeted at changing the mindset of consulting staff whose performance and productivity would be measured in terms of the value added they created so that they would be trained to approach each and every project with a clear profit/loss perspective to enable more realistic project quotations for clients. In this regard, the Management was reviewing the mechanism for setting HKPC's charging rates which did not reflect the true cost of HKPC's services.

6. said that information captured on staff time spent on delivering public missions activities would provide a basis for follow up liaison with the Government on the possibility of reviewing the level of HKPC's subvention which had been maintained at a stable level for years. The Management should also examine why services to government funding scheme projects by staff at ranks of Principal Consultants and above in HKPC were not charged as this was something inexplicable and was not in line with the practice for, say, fully subvented bodies like universities. The Government should review this practice.

 said that was aware of the existing practice and said that the Government would be glad to review with HKPC the overall charging mechanism for government funding scheme projects when the outcome of HKPC's overall review on the actual cost of HKPC's services was available.

8. In reply to , said that the overall work order on hand was still healthy and this should provide a buffer towards achieving the 2013/14 income target. On capital expenditure, said that it would be carefully planned and monitored by the Corporate via a 5-year renewal plan to ensure continual renewal of HKPC's capabilities and proper maintenance of the HKPC Building and its contents which were more than 20 years old now.

9. In response to _____ enquiry over the budgeted decrease in government rates from \$1.95M in 2012/13 to \$1.67M in 2013/14 in Appendix 10, _____ would check the trend in rates for the past few years and revert.

(Post-meeting note: The budget for government rates for 2012/13 was more than the estimated amount for the year, hence the downward adjustment in 2013/14.)

10. In response to _____ enquiry over the relatively low utilization rate of 40% of the new EMC Chamber, _____ explained that the EMC Chamber was an advanced facility ahead of the existing market with the capability to provide Electromagnetic frequency measurements up to 18GHz. _____ envisaged that service demand should be building up given the EU requirements. _____ said that promotion of the new Chamber would be conducted and HKPC was actively pursuing collaboration with the Science Park for an overall promotion of the testing facilities of both parties.

11. In reply to _____, _____ said that the budget forecast for WFOEs was supported by the Business Development Committee at its meeting held on 13 November 2012. The forecast would be included in the Programme and Estimates paper to Council but would not form part of HKPC's income and expenditure for the purpose of subvention requirement. _____ commented that the WFOEs budget was conservative. _____ said that following on the strategic review of WFOEs' business operation, _____ consolidation, localization and repositioning were the keys to moving the WFOEs forward, hence the conservative budget forecast. It was anticipated that the situation would change as the WFOEs would be progressively geared towards self-sufficiency.

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

- (a) HKPC's Three-Year Forecast for 2013/14-2015/16; and
- (b) the detailed Programme and Estimates of HKPC for 2012/13 which included the staff establishment of 695 endorsed by the Staffing Committee at its 43rd meeting held on 6 November 2012.

Members also noted:

- (a) the 3-Year Forecast of WFOEs for 2013/14-2015/16, 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 2013/14 at Appendix 3 to the paper which would be submitted for the Council's agreement prior to ITC's approval.

III. HKPC Standard Staff Cost Rates (F.C. 12/2012)

13. Invited by the Chairman to brief Members, said that in accordance with Standard Practice F7 on "Pricing Policy", staff cost 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: namely L1, L2, L3 and L8. Under the existing mechanism, even the use of L3 rates, frequently quoted as the full cost rates, did not reflect HKPC's true full cost as it included an element of non-fee charging activities. As a consequence, the concept of "full cost" was somewhat diluted and might have, overtime, contributed to the misunderstanding that HKPC was competing with the private sector on pricing. Therefore the Management considered that it was necessary to review the existing mechanism and establish a cost structure whereby the full cost could be more accurately reflected, as laid out in Appendix 2 for reference. Pending the review, the Management proposed to adopt the revised standard staff cost rates in accordance with the established practice as set out in Appendix 1. The upward variation in the L1, L2, L3 and L8 rates for 2013/14 would be in the range of 5.4% to 5.9%, 2.4% to 3%, 7.7% to 8.3% and 4.3% to 7.7% respectively.

14. said that the Management was gathering information on the cost difference between the existing charging rates and the actual full cost. said it would be useful from the Management's point of view to know the cost rates at the actual full cost recovery level.

15. In response to enquiry on the rationale behind including non-recurrent activities into L3 rates as stated in para. 6 of the paper, responded that those would be non-recurrent activities of recurrent items. requested to check past practices on whether non-recurrent activities had been included in adjusting the staff cost charging rates and if so, the effect of such adjustments.

(Post-meeting note: The same consistent methodology has been in use by HKPC in the past.)

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

IV. Financial Performance of HKPC for the First Two Quarters of 2012/13 (April – September 2012) (F.C. 13/2012)

17. Invited by the Chairman to brief Members, reported that for the first two quarters of 2012/13, HKPC's total fee income was \$167.4M, which was less than the budget by HK\$5.3M or 3.1%. Total expenditure for the same period was HK\$173.1M, or 10% less than the budget, mainly due to savings in staff emoluments and capital expenditure. Total surplus for April to September 2012 amounted to HK\$18.1M.

18. Continuing, reported that the provision for staff annual leave was reduced by 9% to HK\$21.2M in September 2012 from a year ago. During the same period, the number of staff annual leave days with financial implication had also been reduced by 8.8%, from 13,150 to 11,992. said that although a fixed percentage target had not been assigned by Council, the reduction of accumulated leave days with financial implication would continue to be a focus of the Management but the outcome would depend very much on the level of staff's cooperation.

19. In the context of assumptions made on the sustainability of the year to date surplus, said that normal accounting practice would not allow making assumptions that were beyond our control, e.g. assuming that the shortfall value would remain at the present level. said that the Management was now more in control of capital expenditure as divisions were now required to review financial performance by the quarter with the Management with a view to eliminating the hockey stick effect for financial performance at year end.

20. Members noted HKPC's financial performance of the first two quarters of 2012/13 (April – September 2012).

V. Quarterly Report on HKPC's Funds (April – September 2012)
(F.C. 14/2012)

21. Invited by the Chairman to report, briefed Members that as at 30 September 2012, HKPC's cash balance was HK\$190M. 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 2012/13 was HK\$0.59M, representing an average return rate of 0.93% which was higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong.

22. In response to enquiry on the progress of the Government's Review of Investment Guidelines, said that the Government was still reviewing the guidelines and undertook to keep Members informed.

23. Members noted the quarterly report on investment of HKPC's funds for the period April-September 2012 as at 30 September 2012.

VI. Any Other Business

(A) Attendance Record of FC Members

24. Members noted their attendance record in 2012 tabled at the meeting.

(B) 2013 Meeting Schedule

25. Members noted the proposed 2013 FC Meeting Schedule which was tabled at the meeting, as follows:

Meeting	Date and Time
47 th FC meeting	19 March 2013 (Tuesday) 2:30pm
48 th FC meeting	23 July 2013 (Tuesday) 2:30pm
49 th FC meeting	19 November 2013 (Tuesday) 2:30pm

26. 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

27. It was agreed that the date of the next meeting was scheduled for 19 March 2013 at 2:30pm.

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