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F.C. 6/2011 (Revised)

**Revised Minutes of the 41st Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 22 March 2011
in Conference Room 1, 2nd 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 Consulting
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Dr. Samuel Leung	General Manager, Finance and Administration
Mr. Alfonso Tam	Principal Consultant, Corporate Services
Ms. Miranda Yeap	Senior Consultant , Corporate Services

Vote of Appreciation

The Chairman suggested, and Members agreed, to record a vote of appreciation to the Hon. Dr. Samson Tam Wai-ho and Prof. Lee Wing-bun for their contributions during their tenure.

Confirmation of Minutes (F.C. 20/2010 Revised)

The Revised Minutes of the 40th Meeting of the Finance Committee held on 9 November 2010 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. Proposed Investment Framework for the Hong Kong Productivity Council (HKPC) (F.C. 1/2011)

1. Invited by the Chairman to report, said that at the 106th Council meeting held on 9 November 2007, the Council had endorsed an investment framework, but in view of the financial tsunami in 2008, the Government had decided to put the proposed framework on hold and had not submitted it to the Financial Secretary. The Management has recently reviewed the original investment framework in view of updated market developments. The Management considered that the original investment framework was still generally in line with market under which HKPC would:

- (i) adhere to four investment objectives in descending order of priority, namely principal preservation, liquidity maintenance, minimal deposit institution risk and return enhancement;
- (ii) invest in the following investment products: structured deposits(interest rate, foreign currency or equity linked) and negotiable debt securities(certificate of deposit, exchange fund bills and notes, governmental organization bonds);
- (iii) invest in HK or US dollars;
- (iv) invest in products with tenor of no more than 2 years; and
- (v) invest no more than 50% of its structured deposits or negotiable debt securities with a single financial institution/issuer.

2. said that the Management had also reviewed the framework in the context of updated market developments and proposed that equity linked deposit should be excluded from the proposed framework and RMB fixed deposits, RMB-denominated structured deposit and RMB-denominated negotiable debt securities should be included as possible investment products.

3. said that the proposed investment framework submitted to the Government in late 2007 involved investments in a variety of instruments with different risk exposure. The proposal was not submitted to the Financial Secretary after consulting the Financial Services and Treasury Bureau, the Hong Kong Monetary Authority and the Securities and Futures Commission and having regard to the 2008 financial tsunami. informed Members that the Government was now conducting a review of the Investment Guidelines for Government departments. As the guidelines would take account of the views of the Audit Commission and should provide useful reference to

public/statutory bodies, suggested the Management should wait for the completion of the review and revise the proposal as appropriate before seeking the Council's advice. could help to facilitate early consultation with the relevant government departments on the Management's proposals, before submission to the full Council/Finance Committee.

4. In response to query on whether the credit rating of the issuing body of the governmental organization bonds would be assessed, replied that the examples of governmental organization bonds quoted in Appendix A had all acquired credit ratings of A2+ or above. also asked whether the proposed maximum tenor of two years for investments would be reasonable for the investment of bonds which had a normal tenor of 5 years. replied that the Management had imposed a more stringent criteria to avoid the locking up of funds for too long. In a related context on the tenor, said that extra caution should be exercised to monitor investment in bonds as it was interest rate and maturity sensitive. said that, taking into account Members' comments, the Management should in due course reconsider the appropriate tenor for bonds. thanked Members for the advice and explained that the principle of the Management was to adopt a more conservative approach to invest its surplus funds to combat inflation with minimal risk.

5. said that risk management was very important because public funds were involved. suggested that it might be more appropriate for HKPC to select specific investment products for inclusion in the future investment framework which would potentially contribute to simpler and more effective risk management, e.g. Exchange Fund Bill.

6. The meeting agreed to defer the submission of this paper to the Council until the completion of the Government's review on Investment Guidelines.

II. Quarterly Report on Investment of HKPC's Funds (April-December 2010 (F.C. 2/2011))

7. Invited by the Chairman to report, briefed Members that as at 31 December 2010, HKPC's cash balance was HK\$171M (as compared to \$179M last reported for September 2010), including \$49M for government funded projects, \$23M as provision for accumulated staff leave and \$99M being working capital to fund current

operations. 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 three quarters of 2010/11 was HK\$0.45M, representing an average return rate of 0.47% which was higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong.

8. Separately, said that there were at present a total of eight banks approved for deposit of HKPC's funds. Under the existing Deposit Protection Scheme, the protection limit had been raised to HK\$500,000 per depositor. Taking this added protection, the Management proposed to include the following banks, which offered higher or similar interest rates to those offered by existing approved banks, in the HKPC's approved bank list:

9. In response to enquiring on whether all the approved banks should require a credit rating of at least A2, said that the requirement of an A2 rating would only apply to investments (but not placing of fixed deposits).

10. Members noted the quarterly report on investment of HKPC's funds for the period April-December 2010 as at 31 December 2010; and agreed to submit for the Council's approval the addition of to HKPC's approved bank list, prior to seeking the approval of the Financial Secretary in accordance with Section 20 of the HKPC Ordinance.

V. Financial Performance of HKPC for the First Three Quarters of 2010/11 (April – December 2010) (F.C. 5/2011)

21. Invited by the Chairman to brief Members, reported that for the first two quarters of 2010/11, HKPC's total fee income was \$226.55M, which was less than the budget by HK\$0.14M or 0.1%.

Total expenditure for the same period was HK\$343.06M, or 6.2% less than the budget, mainly due to savings in staff emoluments, capital expenditure and recurrent expenditure. Total surplus for April to December 2010 amounted to HK\$22.53M comprising capital subvention surplus of HK\$5.42M and revenue subvention surplus of HK\$17.11M.

22. Continuing, reported that medical expenses came to HK\$4.18M in the first half of 2010/11 which was lower than last year's actual by \$63K and the current year's budget by HK\$1.1M (or 21%). In addition, provision for staff annual leave was reduced by 8% to HK\$23M in December 2010 from a year ago. During the same period, the number of staff annual leave days with financial implication had also been reduced by 11%, from 15,104 to 13,455.

23. In response to enquiring whether the higher percentage of decrease in terms of man-days than the lower decrease in the percentage of provision implied that higher-salaried staff took less leave than lower-salaried staff, explained that there was an overall salary increment effect in 2010 which would entail a lesser degree in reduction in terms of leave provision.

24. commented that the costs for temporary staff and overtime might better be reflected in the project accounts instead of the salary account, if appropriate. undertook to consider this in the next Budget exercise.

25. further suggested that the Management should consider reviewing the contents and format of the income and expenditure reports presented to the Council/Finance Committee and submitting management reports to Finance Committee to provide a full picture on the operation and performance of the Council.

26. Members noted HKPC's financial performance of the first three quarters of 2010/11 (April – December 2010).

VI. Any Other Business

(A) Attendance Record of FC Members

27. Members noted their attendance record in 2010 tabled at the meeting.

VII. Date of Next Meeting

28. It was agreed that the date of the next meeting was scheduled for 19 July 2011 at 2:30pm.

29. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:00pm.