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F.C. 8/2010 (Revised)

**Revised Minutes of the 38th Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 23 March 2010
in Conference Room 1, 2nd Floor, HKPC Building
78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Mr. Clement Chen Cheng-jen, BBS, JP
Members - Mr. Davey Chung
Prof. Lee Wing-bun
Mr. Adolph Leung
(representing Mrs. Helen Chan, JP)
Dr. David Ng
Dr. The Hon. Samson Tam Wai-ho, JP
Mr. Wilson Fung

In attendance from HKPC :

Mr. Edmund Sung	Director, Business Consulting
Mr. Tony Lam	Director, Corporate Services
Mr. Joseph Poon	Director, Technology Development
Mr. Sam Law	General Manager, Finance
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Corporate Services
Mr. Steve Kong	Senior Consultant , Corporate Services

Welcome

The Chairman welcomed Dr. David Ng who attended the meeting for the first time.

Confirmation of Minutes (F.C. 17/2009 Revised)

The Revised Minutes of the 37th Meeting of the Finance Committee held on 12 November 2009 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.

II. HKPC Standard Staff Cost Rates (F.C. 2/2010)

9. Invited by the Chairman to brief Members, said that 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.

10. Continuing, said that for 2010/11, the L1 cost rates for 10 staff grades would be adjusted in the range of -1.6% and +1.8%. The L2 and L3 cost rates would be increased by 0.4% to 3.7% and 0.1% to 3.6% respectively. As for the L8 cost rates, no change was proposed for 8 staff grades, while a downward adjustment of 2.3% was proposed for the remaining 2 grades.

11. In response to enquiry, said that the salary adjustment reflected in the new Standard Staff Cost Rates had been previously approved by the Staffing Committee, the Council and the Government. also explained that the Standard Staff Cost Rates covered all project activities performed by HKPC.

12. In response to enquiry, added that the Standard Staff Cost Rates did not cover public mission activities.

13. After discussion, Member endorsed the proposed new HKPC Standard Staff Cost Rates for 2010/11 for Council's approval.

III. Membership of Yau Yat Chuen Garden City Club (F.C. 3/2010)

14. Invited by the Chairman to brief Members, said that the Yau Yat Chuen Garden City Club (YYC) was the only clubhouse in the vicinity that could provide a suitable dining environment at reasonable prices. The annual membership fee had remained at HK\$15,000 for 13

years and would remain unchanged for 2010/11. Based on the number of 216 eligible staff as at December 2009, the membership fee was no more than HK\$6 per staff per month.

15. Continuing, said that apart from official entertainment paid by HKPC, 240 business-related functions were held at YYC in 2009 which did not involve payment on the part of HKPC. In addition, YYC was used for regular lunch for staff communication (e.g. Table for Ten hosted by Directors) and frequent cross-division lunches, on a self paying basis by staff.

16. commented that many activities/functions held at YYC were paid by trade associations/business partners and did not require HKPC's reimbursement. So, judging the utilization by focusing only on dining occasions involving reimbursement did not reflect the full picture.

17. commented and concurred that keeping a monthly log on the use of YYC by HKPC staff could be more helpful to the Council's decision to renew club membership in future as compared with the year-end survey vis-à-vis HKPC's response to Audit on this subject, and the amount of additional administrative work should not be too much.

18. In response, commented that keeping an official log would involve considerable administrative resources as accuracy needed to be ensured and this in turn would create tedious administrative processes which would be costly.

19. agreed and said that a year-end survey on YYC's utilization would suffice. shared the view that it was not necessary to keep a log.

20. supplemented that the Audit Report merely suggested that HKPC should consider whether it was worthwhile to maintain the YYC membership and keeping log was not mandatory.

21. After discussion, Members agreed that HKPC's YYC membership should be retained and a year-end survey on the YYC's utilization would be conducted before membership renewal.

IV. Recovery of Subsidized Service Fees from Wholly Foreign Owned Enterprises (WFOEs) (F.C. 4/2010)

22. Invited by the Chairman to brief Members, _____ reported that at its 112th meeting held on 17 November 2009, Council decided that charging of WFOEs and Shenzhen Joint Venture (SZJV) in the Mainland should be based on a full cost recovery basis and the L4 charging rate for WFOEs, which only included a portion of project activities cost, should be abolished. In this connection, the Director of Audit recommended that HKPC should consider taking action to recover any amount undercharged from the WFOEs due to the use of the lower L4 charging rate for WFOE projects over the past years.

23. _____ said that after careful deliberation, the Management suggested that HKPC should not seek to recover the undercharged amount from the WFOEs and the SZJV mainly due to the absence of a sound contractual basis to do so.

24. _____ enquired whether WFOEs could return the undercharged amount to HKPC by installments and save the monies in a specific bank account in the Mainland.

25. _____ commented and _____ concurred that it would be unlawful for HKPC to recover the undercharged amount from the WFOEs as it would constitute a violation of the contract laws.

26. _____ said that recovery of undercharged fees should not be on WFOEs but on the relevant clients which was impossible in accordance with our contracts with such clients.

27. _____ agreed that HKPC should honor the spirit of contracts. Separately, _____ urged the Government to speed up the review of the HKPC Ordinance regarding full-cost recovery for projects undertaken by HKPC outside Hong Kong.

28. After discussion, Members agreed that HKPC should not seek to recover the undercharged amount from the WFOEs and the Shenzhen Joint Venture (SZJV), _____. Members considered that HKPC did not have any valid contractual basis to charge WFOEs retrospectively on projects already undertaken by WFOEs. There were also technical difficulties for recovery of the undercharged amount as remittance of the undercharged amount from the PRC Mainland to Hong Kong had to be supported by relevant contracts of the projects undertaken.

V. Project Management System (F.C. 5/2010)

29. Invited by the Chairman to brief Members, [redacted] reported that the Director of Audit had pointed out various deficiencies in the project management system (PMS). To address the problems, an internal taskforce was set up and a six-month review was conducted on how HKPC could achieve better project management through PMS and other means. The conclusion was that the system, designed originally and primarily as a project finance management system, had become extremely unwieldy and some of the features had become obsolete. Against this backdrop, the PMS did not provide an effective and efficient system for project management purposes by modern day standards.

30. [redacted] continued to report that a three-pronged approach had been taken to improve the PMS: (a) streamlining of entry fields within the PMS to sharpen its focus and creation of new fields to facilitate monitoring of project progress; (b) strengthening internal procedures by improving documentation of project progress at various stages to achieve better project management; and (c) enhancing the monitoring mechanism by using the PMS to generate early alert reports which would be reviewed at the Weekly Directorate Meeting. HKPC aimed to complete the above measures by early May 2010.

31. [redacted] said that the enhanced PMS should be able to help improve HKPC's project management in future.

32. In response to [redacted] enquiry, [redacted] explained that it was appropriate for the Finance Committee to discuss the PMS as the system was originally and primarily designed for financial management purposes.

33. After discussion, Members supported the improvement measures being taken by HKPC in enhancing its Project Management System.

VI. Financial Performance of HKPC for the First Three Quarters of 2009/10 (April – December 2009) (F.C. 6/2010)

34. Invited by the Chairman to report, [redacted] said that for the first three quarters of 2009/10, HKPC's total fee income was less than the budget by HK\$19.2M. Total expenditure for the same period was

HK\$337.43M, or 10.7% less than the budget. This was mainly due to savings in staff emoluments, capital expenditure and recurrent expenditure. Total surplus for April to December 2009 amounted to HK\$25.82M comprising capital surplus of HK\$8.01M and recurrent surplus of HK\$17.81M.

35. Continuing, reported that medical expenses came to HK\$4.24M in the first three quarters of 2009/10 which was lower than the current year's budget by HK\$0.26M (or 5.8%) and less than last year's actual figure by HK\$0.06M (or 1.4%). In addition, it was encouraging to see that provision for staff annual leave was reduced by 13.6% to HK\$25.13M in December 2009 from a year ago.

continued to report that during the same period, the number of staff annual leave days with financial implication had also been reduced by 13.7%, from 17,496 to 15,104. In this connection, reported that the Audit Committee agreed that since the target of reducing the leave balance by one-third within three years had largely been achieved, another time-specific target was not required. However, reiterated that the Management would continue to implement administrative measures, such as Corporate Leave, to effectively manage the leave balance.

36. commented that HKPC's financial surplus was mainly due to cost saving. On the other hand, income had declined.

37. In response, explained that in preparing the budget last year, the top line was set high for the purpose of driving staff to achieve an ambitious target. Staff cost on the other hand was a function of the volume of business secured and HKPC had been extremely vigilant in cost control, particularly when the actual business volume failed to meet our target.

38. After discussion, Members noted HKPC's financial performance of the first three quarters of 2009/10 (April – December 2009).

VII. Quarterly Report on Investment of HKPC's Funds (April-December 2009) (F.C. 7/2010)

39. Invited by the Chairman to report, briefed Members that as at 31 December 2009, HKPC's cash balance was HK\$131M. said that under the existing investment strategy, all of HKPC's funds were placed in time deposits or savings accounts. During April-December 2009, about 56% of cash was placed in Standard Chartered Bank, 17% in

China Construction Bank, 15% in HSBC, and 12% in Bank of East Asia. The actual bank interest income earned by HKPC during the first three quarters of 2009/10 was HK\$0.22M, representing an average return rate of 0.24% which was higher than the 0.02% average interest rate for savings accounts offered by major banks in Hong Kong.

40. In reply to _____ enquiry, _____ said that the rule governing investment of funds was set by the Government and any changes in the investment strategy had to be approved by the Financial Secretary. HKPC had in the past considered many different capital guarantee investment instruments and would be pleased to consider any new proposals but ultimately could not employ such instruments unless they were approved by the Government. _____ would welcome the Government's advice (through ITC) on when it would be an appropriate time to seek the Government's approval again. _____ noted.

41. After discussion, Members noted the quarterly report on investment of HKPC's funds for the period April-December 2009.

VIII. Any Other Business

(A) Expanded Terms of Reference of Finance Committee

42. Invited by the Chairman to report, _____ said that the current Terms of Reference (TOR) of the Finance Committee were largely advisory in nature except that the Committee had the power to approve the Three-year Forecast. _____ continued to say that at the public hearings held by the Legislative Council's Public Accounts Committee (PAC) regarding the Report of the Director of Audit, it was suggested that the TOR of the Finance Committee could be considered to be expanded to cover matters such as procurement and fixed assets, which were not under the remit of any of the existing Committees. In this connection, at the Council meeting to be held on 30 March 2010, a proposal to expand the TOR of the Finance Committee would be discussed. Under the proposal, the TOR of the Finance Committee would be expanded for the Committee to: (a) approve major changes to HKPC's procurement, building and fixed asset management policies as well as charging levels of HKPC's services; and (b) advise Council on matters that have a significant financial impact on HKPC.

43. In response to _____ enquiry, _____ confirmed that the proposal did not violate any restrictions related to the delegation of power insofar as the HKPC Ordinance was concerned.

44. After discussion, Members endorsed the proposed expanded Terms of Reference of the FC for Council's approval.

(B) Attendance Records of FC Members

45. Members noted the attendance record in 2009 tabled at the meeting.

IX. Date and Venue of Next Meeting

46. It was agreed that the date of the next meeting was scheduled for 27 July 2010 at 2:30pm and the venue of the next meeting be left open.

47. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 5:00pm.