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

F.C. 9/2013

Minutes of the 48th Meeting of the Finance Committee held at 2:30p.m. on Tuesday, 23 July 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. Clement Chen, SBS, JP Mrs. Agnes Mak Tang Pik-yee, MH, JP Ms. Elley Mao, JP (representing Mrs. Helen Chan, JP) Dr. David Ng Dr. Dennis Ng, BBS, MH Mr. Frank Tsang

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

Welcome

The Chairman welcomed Ms. Elley Mao, JP, Principal Economist who attended the meeting for the first time.

Confirmation of Minutes (F.C. 3/2013 Revised)

The Revised Minutes of the 47th Meeting of the Finance Committee held on 19 March 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. Three-year Strategic Plan of HKPC for 2014/15 - 2016/17 (F.C. 4/2013)

1. introduced the paper and said that the existing strategic plan of HKPC was anchored on a four-pronged strategy focusing on scaling up platforms, creating value for SMEs, sharpening core competencies and developing strategic partners. The Management had revisited the existing strategic plan and considered that the four-pronged strategy was still valid and that the staff of HKPC would continue to be guided by the vision, mission and values approved by the Council to deliver our services and public mission. then went on to brief Members on the major existing initiatives being implemented and the new initiatives proposed for the 2014/15 - 2016/17 strategic plan (paragraph 5 of the paper) which would be taken forward subject to the availability of resources. The various initiatives under the strategic plan had been considered and supported by the Business Development Committee (BDC) at its 51st meeting held on 16 July 2013. As regards exit plan, at this point, no services were planned for exit in the next three years. said that the Management would consider the necessity of revisiting the strategic plan during the year if there were any fundamental changes in the relevant macro environment to ensure that the plan was in line with Government policy.

2. In reply to , said that a memorandum of understanding (MOU) had been signed with Zhuhai to foster collaboration in software testing and to help Hong Kong software companies to extend their operation and services to the Mainland. Zhuhai was a natural choice because, apart from Beijing which focused on the policy aspects of the Mainland’s software testing related issues, it was currently the only Mainland location with software testing facilities recognized at the national level.

3. In reply to , said that most of HKPC’s testing services were certified by international standards, such as HOKLAS. HKPC was a trusted testing service provider because of our neutral position and that our testing services were supplemented with modification and improvement advice to clients. As an illustration of industry trust in our testing services, HKPC was the only testing centre for IBM’s circuit boards recognized by IBM outside the US.

4. In response to enquiry, explained the purpose of commercialization by HKPC which was primarily to bring R&D deliverables to the market for adoption and commercial exploitation. also briefed Members on the process of commercialization which was guided by the rules previously endorsed by the BDC. Frequently, R&D deliverables were proof of concepts only

and there was a fitting role for HKPC, with our rich industry experience, to assist in their productization for commercialization.

5. In reply to , said that, as advised by the BDC, the development initiatives of the APAS Division would be included in the strategic plan when it was presented to the Council.

6. In reply to , said that the technology evaluation service of ISIS Innovation of the Oxford University should be useful to the commercialization process. But there were also practical considerations. ISIS's services were expensive to start with, but more importantly, where there was a difference in opinion with regard to the value of a technology by ISIS and the market, it would be difficult to decide whether professional advice should prevail over what the market was prepared to pay, or vice versa. This could potentially put a commercialization deal on hold. said that independent technology evaluation was expensive and was probably more suitable for technologies with breakthrough and large scale commercial applications. The value of commercialization deals by HKPC so far did not seem to justify the use of such expensive service and it was best to leave it to the market to decide what they were prepared to pay in an open competitive process.

7. <u>Members</u> endorsed for the Council's approval HKPC's Three-year Strategic Plan for 2014/15 - 2016/17 at Annex A of the paper.

II. <u>Annual Accounts for the Year 2012/13</u> (F.C. 5/2013)

8. Invited by the Chairman to report, said that the total external income for the year amounted to $362.5M which was higher than the budget by $11.8M or 3.4%. The income surplus came mainly from consultancy projects ($30.8M) but was offset by the shortfall in government funded projects ($9.2M), in-class training ($6M) and manufacturing support services ($3.8M). The value added was short by $13.1M against the budget. On the expense side, total expenditure came to $362.9M which was $24.7M or 6.4% less than the budget of $387.6M.
Separately, the APAS R&D Centre Ltd. had been merged into HKPC as the APAS Division since 1 November 2012 which was separately subvented. The financial result of the APAS Division for the period 1 November 2012 to 31 March 2013 had been incorporated into HKPC's Annual Accounts for 2012/13.

9. In reply to , said that it had been explained to staff clearly that project expenses should be more accurately

estimated and carefully controlled. In this connection, divisions' financial performance was now assessed mainly on the basis of the value add created through fee-earning projects. One important measurement was the value add per staff emolument ratio. The situation was improving but not fast enough as some project expenses had been stipulated in contracts already agreed. supported the Management actions in this regard and said that, with around $300M worth of projects already in the pipeline, a more accurate estimate of the project expenses involved in these projects should be readily available by the divisions. In response, said that, in the upcoming P&E exercise, this issue would be examined in detail with each of the general managers. Divisional forecasts would need to reflect a division's past performance in revenue generation and the pattern of changes in project expenses taken during the past two financial years. said that the general managers should be held fully accountable for the accuracy of their budget estimates and actual performance. said that the new ERP system, planned for launch by early 2014, would provide the necessary facilitation support in budget estimates and project monitoring.

10. In reply to , said that, excluding the corporate divisions which were not engaged in project work, the staff utilization rate of the operating divisions was around 80% for billable projects. With regard to enquiry on delay in building maintenance and office renovation work, explained that progress of the renovation and maintenance work had been somewhat adversely affected by the departure of the key staff in charge. agreed with that the progress of large scale projects should be closely monitored as the delayed expenditure would be reflected in the accounts of the following year and created added pressure on HKPC's income position.

11. referred to note (a)(i) under "Capital subvention fund and reserves" on page 59 of the paper and said that the external auditor should be asked to confirm whether the capital subvention fund was indeed created to record the cumulative effect of the purchase of fixed assets and depreciation etc. in the prior years instead of the current year.

[Post-meeting Note: The external auditor had removed the words "in prior years" from note (a)(i) on page 59 of the accounts which were presented to the Council on 30 July 2013.]

12. In reply to , said that the impairment loss of $1.29M was related to the closure of a joint venture company (ECOLED) formed under the HKPC Technology (Holdings) Co. Ltd. which was a subsidiary set up as a vehicle for the

commercialization of HKPC's technologies and patents.

13. referred to paragraph 34 of the management letter and said that the external auditor should be asked to confirm whether "note 24" should actually read "note 25".

[Post-meeting Note: The external auditor had confirmed that it should be "note 25" and made the necessary amendment to the management letter attached to the accounts which were presented to the Council on 30 July 2013.]

14. Members endorsed for Council's approval the Annual Accounts of HKPC for the year ended 31 March 2013 which had also been considered by the Audit Committee at its 26th meeting on 28 June 2013 with no major adverse comments.

III. HKPC 2013/14 Standard Staff Rates (F.C. 6/2013)

16. said that, according to HKPC Standard Practice F7 on 'Pricing Policy', standard staff rates should be reviewed annually and any adjustments should be submitted to the Finance Committee for approval before implementation. In this connection, the staff cost rates for 2013/14 under existing basis for review mechanism were set out in Appendix 1 of the paper for the 4 levels of standard staff rates, namely an increase of 2.8% to 4.6% for L1, 1.4% to 3.2% for L2, 5.1% to 7% for L3 and 3.2% to 7.1% for L8.

17. asked what differentiated L1 rates from L2 rates. explained that while both rates were applicable to SMEs, L1 rates were for projects involving the development of new technologies. commented that such distinction should be included in Appendix 1 in future.

18. In reply to , said that for the L3 rates, the rate of increase was higher than the pay trend adjustment due to corporate activities, for example, building maintenance and major corporate initiatives such as ERP implementation, centralized procurement and the enhanced audit and risk management function for which additional resources were necessary. In response to question, said that corporate expenses were tightly controlled and closely monitored. As it was, HKPC's L3 rates were still very competitive compared to the market.

19. Members approved the standard staff rates for 2013/14 as set out in Appendix 1 of the paper.

IV. Financial Performance of HKPC for the First Quarter of 2013/14 (April - June 2013) (F.C. 7/2013)

20. Members noted that for the first quarter of 2013/14, HKPC's total fee income was $67.4M, which was less than the budget by $24.6M (or 26.7%) mainly due to less than budgeted income from consultancy projects, in-class training courses and study missions. Total expenditure was $85.4M, or 15.6% less than the budget, due to under expenditure in staff emolument, other fixed expenses and capital expenditure. Surplus before depreciation and maintenance for ERP system was $0.3M while the budgeted surplus was $2.2M. Members also noted the financial performance of the Automotive Parts and Accessory Systems R&D Centre (APAS) during the same period as detailed in paragraph 8 of the paper.

21. Separately, Members noted that during the same period, the provision for staff annual leave was reduced by 10% to $18.8M in June 2013 compared to a year ago, and the number of staff annual leave days with financial implication was also reduced from 12,051 to 10,494, or by 13%.

V. Quarterly Report on HKPC's Funds (F.C. 8/2013)

22. Members noted that as at 30 June 2013, HKPC's cash balance was $151M. The actual bank interest income earned by HKPC in 2012/13 was $1.1M, representing an average return rate of 0.92%. In the first quarter of 2013/14, the actual bank interest income was $0.2M, representing an average return rate of 0.71%. Both return rates were higher than the average interest rate (around 0.01%) for savings account currently offered by the major banks in Hong Kong.

23. Members noted the cash balance and treasury activities of HKPC as at 30 June 2013.

VI. Any Other Business

(A) Attendance Record of FC Members

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

VII. Date of Next Meeting

25. It was agreed that the date of the next meeting be scheduled on 19 November 2013 at 2:30pm.

26. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 4:05pm.