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F.C. 14/2010 (Second Revision)

**Revised Minutes of the 39th Meeting of the Finance Committee
held at 2:30p.m. on Tuesday, 27 July 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. Andrew Lai, JP
Mr. Tony Lam
Mr. Adolph Leung
(representing Mrs. Helen Chan, JP)
Dr. David Ng
Dr. The Hon. Samson Tam Wai-ho, JP

Absent with Apologies: Prof. Lee Wing-bun

In attendance from HKPC :

Mr. Edmund Sung	Director, Business Consulting
Mr. Joseph Poon	Director, Technology Development
Mr. Johnson Ho	General Manager, Finance and Administration
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Corporate Services
Ms. Miranda Yeap	Senior Consultant, Corporate Services

In attendance from ITC: Mr. Henry Tong

Confirmation of Minutes (F.C. 8/2010 Revised)

The Revised Minutes of the 38th Meeting of the Finance Committee held on 23 March 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. Annual Accounts of the Year 2009/10 (F.C. 9/2010)

1. Invited by the Chairman to brief Members, reported that the total fees and services income for 2009/10, as a result of the financial tsunami, amounted to \$281.77M which was below the budget by \$22.22M (or 7.31%). The total expenditure amounted to \$442.19M which was \$41.98M (or 8.67%) less than the budget of \$484.17M. The savings accrued mainly as a result of tighter cost control which led to under-expenditure in staff emoluments, capital and recurrent expenditure. The total surplus for the year amounted to \$25.77M, subject to the proposed provision for the 2009/10 VP being approved by Council. This surplus comprised capital subvention surplus of \$3.32M and revenue subvention surplus of \$22.45M.

3. said that the Audit Committee had already reviewed the Accounts and no adverse comment had been made.

complimented HKPC on the management of its operations which resulted in a substantial surplus as shown in the Accounts.

5. In response to enquiry, confirmed that there had been no major adjustments to the Accounts by the Auditor. There was also no management letter from the Auditor drawing the Management's attention to specific issues. reported that there had been no contingent liability or pending litigation against HKPC to be disclosed in the Accounts. assured Members that, in the light of greater emphasis on effective financial management and tightened accounting guidelines, suitable and regular training would be provided to staff of the Finance and Administration Division to maintain standards and keep up to date with market developments.

6. On the transfers to be made under section 16(4)(b) of the Hong Kong Productivity Council Ordinance, explained that the Council might at any time transfer any sum from any sub-head to any other sub-head within the same head of expenditure. A transfer within the Head of Expenditure for Staff Emoluments and Recurrent Expenditure (Appendix 1, P.5) was proposed for the Council's approval.

7. In reply to _____, _____ explained that there was no double counting as the actual staff costs and related project costs were booked as staff emolument and project costs in the Annual Accounts while the different charge rates for staff costs and actual project costs were booked in the Project Accounts to determine the income.

8. Members endorsed for Council's approval:

- (a) the Annual Accounts of HKPC for 2009/10; and
- (b) the transfers under Section 16(4)(b) of the HKPC Ordinance.

II. Three-Year Strategic Plan of HKPC for 2011/12-2013-14 (F.C. 10/2010)

9. Invited by the Chairman to brief Members, _____ said that the Council, in response to the Audit Commission's recommendations, agreed at its meeting on 30 March 2010 that HKPC should submit a three-year strategic plan annually before the Council considered the Three-year Forecast for the same period. _____ emphasized that the strategic plan was meant to be in broad terms. The strategic plan thus set out the broad strategies and directions of HKPC for the coming three years, which would be translated into concrete initiatives in the Programme & Estimates exercise subject to availability of resources. The strategic plan was also broad in nature such that this would provide some room for manoeuvre pending the arrival of the new Executive Director.

10. For the period 2011/12 – 2013/14, _____ briefed the meeting that the HKPC would adopt the following four-pronged strategy:

- (a) scaling up services platforms;
- (b) creating value for SMEs;
- (c) sharpening core competencies; and
- (d) developing strategic partnership.

_____ said that on scaling up services platforms to benefit industries on a sector-specific basis, HKPC planned to develop new quality service schemes to promote service excellence, develop HKPC into a centre for low carbon initiatives, focus resources on emerging and fast-growing industries, e.g. creative industries and expand HKPC's support in the PRD riding on the success of TURN and Dongguan TURN. On creating value for SMEs and to improve their competitiveness, HKPC would groom those with potential in the areas of corporate social

responsibility, intellectual capital management, green information and communications technology, branding, Mainland domestic sales, etc., targeting specifically young SME entrepreneurs who would be more receptive to new ideas and technologies. On sharpening core competencies, HKPC would continue to invest in technology transfer and application to support the industries and develop new capabilities in “hot” areas, e.g. low carbon technologies. With regard to developing strategic partnership, HKPC would continue to extend its network in breadth and depth by exploring collaboration with new partners in the industry and engaging its stakeholders to discuss challenges they faced and how to cater to their needs. To provide support to the above strategic plan, HKPC would continue to strengthen its corporate governance, invest in its human resources, reinforce its performance-based culture and strengthen its team spirit.

11. said that supported the broad directions stated in the three-year strategic plan and advised that the Business Development Committee (BDC) should be suitably consulted on the implementation of the various major initiatives under the strategic plan. In response, said that the Council would review on a rolling basis the three-year strategic plan and the BDC had been consulted on some of the major initiatives to be included in the strategic plan. For example, BDC was consulted and discussed at its meeting in July 2010 new business initiatives on Information Communications Technology (ICT) and Intellectual Capital Management (ICM) providing support to the ICT vendor and SMEs.

12. said that it was important for HKPC to develop and promote signature services which would clearly identify itself as the expert and preferred solution provider in the transfer and application of the latest technology and management models for industries, especially to SMEs.

13. said that HKPC could consider positioning itself to serve a useful middleman role to bring technologies to the industry via the R&D Centres which were relatively restrained by limited resources and their relative small size. also concurred that the Management should consult the BDC before presenting the strategic plan to the Finance Committee and the Council. also said that the major initiatives under the strategic plan, together with ballpark estimates of the resources required, should also be spelt out to facilitate the Council’s deliberation. In this connection, advised that if it was intended to secure separate and additional funding from the Government, it would be useful for the Management to further elaborate

the details of the proposals (such as the purpose of the initiative and its potential benefits to the industry) and to obtain the Council's support before pursuing the idea with the Government.

14. said that care should be exercised when HKPC formulated concrete measures for grooming SMEs and developing strategic partnership, in view of the possible competition implications for a number of markets. This was particularly important at a time when the Government was going to introduce a Competition Law, though it was not certain at this juncture if HKPC would be covered by the proposed law.

16. said that a feasible option to bring about more resources would be for the HKPC to build up its reserve to facilitate the endorsement of individual proposals to further its purposes. suggested that the Government should consider relaxing the restriction on the amount of reserve that could be maintained by HKPC.

17. After discussion, Members endorsed the three-year strategic plan (2011/12-2013-14) for Council's approval.

IV. Financial Performance for the First Quarter of 2010/11 (April-June 2010) (F.C. 12/2010)

21. Invited by the Chairman to report, said that for the first quarter of 2010/11, HKPC's total fee income was \$72.33M, which was \$2.74M less than the budget. Total expenditure for the same period was \$111.62M, or 12.3% less than the budget. This was mainly due to savings in staff emoluments, capital expenditure and recurrent expenditure. Total surplus for April to June 2010 amounted to \$9.36M comprising capital surplus of \$0.92M and recurrent surplus of \$8.44M.

22. further reported that medical expenses came to \$1.35M in the first three months of 2010/11 which were lower than the current year's budget by \$0.42M (or 24%) and higher than last year's actual figure for the same period by \$0.07M (or 5%). In addition, it was encouraging to see that provision for staff annual leave was reduced by 14% to \$24.39M in June 2010 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 14%, from 16,941 to 14,563. reiterated that effective leave management would continue to be a focus of the HKPC Management.

23. enquired on the business trend in the foreseeable future. replied that there should be steady growth and expected that the delayed payment of some Government projects would subsequently come in and be duly reflected in the cashflow.

24. supplemented that business in the areas of environment protection, technology development and intellectual property was stable. Meanwhile, the automobile and electronic industries would be gearing up and increased business opportunities were anticipated, including increased project opportunities from the Automotive Parts and Accessory Systems R&D Centre (APAS).

25. In reply to , said that the accounts had not yet reflected the staff salary increase for 2010/11. Separately, there were also some vacancies pending appointment of suitable candidates. The Management would carefully balance the staffing situation with project requirements.

26. said that the leave situation should be closely monitored and the Management should avoid the need for a substantial liability and corresponding provision in HKPC's budget/accounts. In reply, said that on the advice of the Audit Committee (AC) and the Council, the Management had already implemented measures to help staff reduce their leave balance by one-third in the past three years. The Management would continue to use administrative measures, including the corporate leave mechanism, to encourage colleagues to take leave orderly to reduce the leave balance. However, it was not advisable to set hard and fast targets again for the time being. Supplementing, said that the leave situation was closely monitored by the Management on a monthly basis, via regular directors' meetings with the General Managers.

27. After discussion, Members noted HKPC's financial performance of

the first quarter of 2010/11 (April – June 2010).

V. Quarterly Report on Investment of HKPC's Funds (April-June 2010) (F.C. 13/2010)

28. Invited by the Chairman to report, briefed Members that as at 30 June 2010, HKPC's cash balance was \$183M. said that under the existing investment strategy, all of HKPC's funds were placed in time deposits or savings accounts. During 2009/10 and the 1st quarter of 2009, about 51% of cash was placed in the Standard Chartered Bank, 23% in the China Construction Bank, 14% in the Bank of East Asia HSBC, and 12% in the HSBC. The actual bank interest income earned by HKPC in 2009/10 was \$0.26M, representing an average return rate of 0.21% and during the first quarter of 2010/11 was \$0.08M, representing an average return rate of 0.25%. Both rates were higher than the 0.01% average interest rate for savings accounts offered by major banks in Hong Kong.

29. In response to a question from on the level of working capital, said that in the interest of credit control and to avoid negative cashflow, it was HKPC's general practice to receive deposit payment from new projects before the delivery of services. Therefore, on a rolling basis, the level of working capital had taken account of payments from clients in advance.

30. After discussion, Members noted the quarterly report on investment of HKPC's funds for the period April-June 2010.

VI. Any Other Business

(A) Attendance Records of FC Members

31. Members noted the attendance record in 2010 tabled at the meeting.

VII. Date of Next Meeting

32. It was agreed that the date of the next meeting was scheduled for 9 November 2010 at 2:30pm.

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