

**F.C. 15/2019**

**Minutes of the 67<sup>th</sup> Meeting of the Finance Committee of  
the Hong Kong Productivity Council  
held at 4:30p.m. on Friday, 15 November 2019  
via Teleconference**

**Present** : Chairman - Mr. Wilson Fung Ying-wai

Members - Mr. Mohamed D. Butt  
Prof. John Chai Yat-chiu, JP  
Miss Kathy Chan Nap-sze  
(Assistant Commissioner for  
Innovation and Technology (Funding  
Schemes), representing Ms. Rebecca  
Pun, JP, Commissioner for Innovation  
and Technology)  
Ms. Joyce Cheung Chung-sze  
(Principal Economist, representing Mr.  
Andrew Au, JP, Government  
Economist)  
Mr. Felix Chow Bok-hin  
Dr. Allen Shi Lop-tak, BBS, MH, JP  
Ms. Karmen Yeung Ka-yin

**In Attendance from HKPC :**

Dr. Lawrence Cheung	Chief Innovation Officer
Mr. Edmond Lai	Chief Digital Officer
Ms. Flora Li	Chief People and Culture Officer
Ms. Vivian Lin	Chief Financial Officer
Ms. Gillian Luk	Senior Manager, Council Secretariat
Ms. Olivia Poon	Manager, Council Secretariat

**Special Arrangement for the Meeting**

The Chairman said that in light of the traffic disruption near the Kowloon Tong district, the 67<sup>th</sup> Finance Committee (FC) meeting was held via teleconference. The Chairman thanked Members for calling in to join the meeting and their support of the special arrangement.

## **Declaration of Interest**

The Chairman reminded Members to declare interest should they observe any direct/pecuniary interest in any matter to be discussed at the meeting.

### **I. Confirmation of Minutes (F.C. 10/2019)**

1. The Draft Minutes of the 66<sup>th</sup> FC Meeting held on 23 July 2019 had been circulated to Members and there were no requests for amendments. The Minutes were taken as read and confirmed and the Secretariat would arrange signing of the Minutes by the Chairman.

(As the next three agenda items (items II, III and IV) were closely related, and briefed Members on these three items before Members' discussion of the items.)

### **II. Financial Performance of HKPC for the First Two Quarters of 2019/20 (April - September 2019) (F.C. 13/2019)**

2. Members noted the financial performance of HKPC, excluding Automotive Platforms and Applications Systems R&D Centre (APAS), for the period from April to September 2019. During the period, HKPC's total fee income was \$225.9M, exceeding the budget by 2.0%. This was contributed by the strong performance in the Industry 4.0 business which had gone up by 8% over the same period last year. In terms of value added, the actual level achieved surpassed budget by \$7M (or 5.4%). With satisfactory intake of projects in Industry 4.0 and Enterprise 4.0, the value of new orders exceeded budget by 47%. Total expenditure during the first 6 months of 2019/20 was \$213M, or 9.3% less than the budget. This was due to lower staff emoluments caused by vacancies, capital expenditure to be reflected in the second half of the year and savings brought by sourcing deflation. The surplus for the first half of 2019/20 was more than the budgeted surplus by \$30.7M.

3. said that the business performance of HKPC for the report period were in line with the budget in general and revenue was on track to meet the whole year target. But with signs emerging about business slow down, the Management held a cautious outlook on the financial performance for the whole year of 2019/20 and stood ready to take proactive steps to manage the operation according to budget.

4. observed an additional factor with potential impact on the financial situation in the second half of 2019/20, viz fee concessions to SMEs and start-ups which were announced by HKPC in September 2019 to run till March 2020. In response, said that the concessions, which applied to consultancy projects (excluding those under government funding schemes), testing service, venue rental and corporate training, were well received by industries with an increased number of enquiries on the applicable services since the announcement. As the impact on order intake would take time to be reflected, the Management had been closely monitoring the situation and would review the arrangement in due course.

5. Members also noted the financial performance of the WFOEs for the first half of 2019/20 which were impacted by the suspension of the Dongguan TURN<sup>1</sup> programme (the Programme) since the last round completed in June 2019. With the Dongguan authority finally giving approval in early November 2019 to roll out a new round of the Programme, the WFOEs were gearing up for new applications by enterprises to obtain assessment and improvement support from HKPC. Together with on-going effort to actively explore business areas with potential like 5G applications and executive training, there was confidence that the WFOEs would be able to reduce the income gap in the second half of the year and move closer to meeting the annual target set.

6. After asking about the Programme and accounting arrangement for HKPC's Mainland entities, to which and responded respectively, invited the Management to brief Members on another occasion about the operation of the Mainland entities, such as their income streams, business trend, relationship with Hong Kong operation etc. undertook to give Members an update at the next FC meeting about the business model of HKPC's Mainland operation. welcomed the arrangement.

### **III. Programme and Estimates of HKPC for 2020/21 and Three-Year Forecast 2020/21 – 2022/23 of HKPC Income and Expenditure (F.C. 11/2019)**

7. Members noted the financial estimates for 2020/21. External income was estimated to increase to \$452M in 2020/21, which was 2% above the 2019/20 budget, in light of a healthy stock of projects in the pipeline and sustained effort to offer timely support to meet the acute needs of SMEs and start-ups. The growth in income estimates had also taken account of a proposal to keep the list price unchanged in 2020/21 for which Members' approval would be sought under the next agenda item. As for other financial indicators, the value added percentage was estimated to be maintained at 58.6%. On the expenditure side, a 3% increase was estimated for staff emoluments, based on a vacancy rate of

---

<sup>1</sup> TURN is the acronym for 'Transform, Upgrade and Relocate for a New Horizon'.

14.3%. Other expenditure items were estimated to slide by 3% as efforts to ensure prudent use of resources and sourcing deflation were expected to yield savings. The overall financial result for 2020/21 was forecast to be a surplus of \$1M.

8. noted that the estimated financial result for 2020/21 (\$1M) was below that for 2019/20 (\$6M) despite the estimated growth in external income (by 2%). agreed that that this was partly attributable to no price increase proposed for 2020/21. While HKPC undertook to exert effort to further increase activity level in the next year and beyond, concrete measures aiming at reducing the financial burden of industry partners at difficult times would inevitably weigh on HKPC's financial performance.

9. Members also noted the financial forecast for 2021/22 and 2022/23, with the income growth rate projected to be 2% for each of the years as HKPC sought to maintain effort to reach out to more SMEs and start-ups.

10. As for the financial forecast for the Mainland subsidiaries, Members noted that external income and value added were estimated to increase by 2% to RMB22.2M and RMB12.3M respectively in 2020/21 over the 2019/20 budget. The same growth rates were proposed for 2021/22 and 2022/23 as HKPC looked to drive steady growth in income and value added by tackling market challenges and opportunities in the Mainland. Expenditure in 2020/21 would be maintained at the same level as in the 2019/20 budget with continuous cost control. The estimated financial result was a surplus of RMB\$0.7M in 2020/21.

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

- (a) HKPC's Three-Year Forecast for 2020/21-2022/23; and
- (b) the detailed Programme and Estimates of HKPC for 2020/21 which included the overall staff establishment of 662 for HKPC (excluding APAS) endorsed by the Staffing Committee at its 64<sup>th</sup> meeting held on 12 November 2019.

12. Members also noted the Three-year Forecast of the Mainland subsidiaries, as well as the indicative funding from the Innovation and Technology Fund (ITF) to support the operation of APAS for 2020/21 to 2022/23 (paragraphs 31-35 of paper) which did not form part of HKPC's income and expenditure forecast for the purpose of subvention requirement.

#### **IV. Annual Review on List Price (F.C. 12/2019)**

13. Members approved a proposal to keep the existing list price for various staff grades unchanged for the period from 1 January 2020 to 31 March 2021. It was noted that based on the full cost recovery principle, the list price should be raised by 4% on average. Yet it was proposed to maintain the list price for a second time in the year ahead having regard to the global trade uncertainties and economic downturn in Hong Kong and nearby regions which posed unprecedented challenges to HKPC's industry partners many of which are SMEs and start-ups.

14. Members agreed with the Management that the effective period of the list price should be switched from calendar-year to financial-year basis from 2020 onwards, in line with the accounting cycle of HKPC in its financial reports to the Council. In this connection, the existing list price would be applied in 2020 and till end of the financial year of 2020/21 i.e. March 2021.

15. referred to the list price for Grade 6 (Senior Manager) staff which, if calculated based on the full cost recovery principle, should be raised by 16% after review. noted that this change percentage was higher than that of the other grades (Annex I of the paper). explained that the annual review of the list price was based on an established formula which took into account the staff utilisation rate for each grade in the previous year before an effective average change rate for application across all staff grades was recommended to the FC for approval.

#### **V. Quarterly Report on HKPC's Funds (F.C. 14/2019)**

16. Members noted the quarterly report on HKPC's funds as presented by , covering the cash balance position as at 30 September 2019, deposit of funds in savings and time deposit accounts of various banks and interest earned.

#### **VI. Any Other Business**

##### **(A) Attendance Record of FC Members**

17. Members noted their attendance record for 2019 as circulated together with the meeting agenda and papers by emails on 8 November 2019 and 14 November 2019.

**(B) 2020 Meeting Schedule**

18. Members noted the tentative 2020 FC meeting schedule, as follows:

Meeting	Date and Time
68 <sup>th</sup> FC meeting	17 March 2020 (Tuesday) 4:30pm
69 <sup>th</sup> FC meeting	21 July 2020 (Tuesday) 4:30pm
70 <sup>th</sup> FC meeting	13 November 2020 (Friday) 4:30pm

**VII. Date of Next Meeting**

19. It was noted that the next meeting was tentatively scheduled for 17 March 2020 at 4:30 p.m.

20. There being no other business, the Chairman thanked Members for their attendance and the meeting was closed at 5:10 p.m.