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**Report of the Bills Committee
on Hong Kong Science and Technology Parks Corporation Bill**

Purpose

This paper reports on the deliberations of the Bills Committee on Hong Kong Science and Technology Parks Corporation Bill (the Bill).

Background

2. In August 1999, Government accepted the recommendations contained in the final report of the Chief Executive's Commission on Innovation and Technology, chaired by Professor TIEN Chang-lin. One of these recommendations is that the Hong Kong Industrial Estates Corporation (HKIEC), the Hong Kong Industrial Technology Centre Corporation (HKITCC) and the Provisional Hong Kong Science Park Company Limited (PHKSPCL) should be merged. The Administration points out that the merged body will effectively provide a one-stop service to industry and offer a comprehensive range of services, from nurturing of start-ups through the incubation programmes, providing premises and services in the Science Park for intensive research & development activities, to offering land and premises in the industrial estates for production facilities.

The Bill

3. The purpose of the Bill is to -
- (a) incorporate a body by the name of Hong Kong Science and Technology Parks Corporation;
 - (b) repeal the Hong Kong Industrial Estates Corporation Ordinance (Cap. 209) and the Hong Kong Industrial Technology Centre Corporation Ordinance (Cap. 431); and
 - (c) dissolve the HKIEC, the HKITCC and the PHKSPCL.

The Bills Committee

4. The House Committee agreed at its meeting on 5 January 2001 to form a Bills Committee to study the Bill. Chaired by Hon Kenneth TING, the Bills Committee held a total of three meetings to discuss with the Administration. The membership list of the Bills Committee is in **Appendix I**.

Deliberations of the Bills Committee

5. Members of the Bills Committee are generally in support of the objective of the merger to streamline the existing service delivery structure and to maximize synergy among the three organizations. They however are concerned about the mode of operation and the pricing policy of the new Corporation. They are worried that the new Corporation may not be able to fulfil its public mission to assist the manufacturing industry in Hong Kong if it is required to operate in accordance with prudent commercial principles. Rather, it may compete with the private sector for profit in the end. Some others are concerned about the financial viability and monitoring of the new Corporation.

6. The deliberations of the Bills Committee are summarized below.

Purposes of the new Corporation

7. Some members of the Bills Committee consider it necessary to define clearly in the Bill the role and functions of the new Corporation. This can ensure that the business of the new Corporation will not depart from its prescribed functions to provide infrastructural support to facilitate Hong Kong's industrial and technological development, and to create job opportunities in Hong Kong.

8. According to the Administration, clause 6 of the Bill already provides for the statutory framework governing the broad mission of the new Corporation. Clause 8 further defines the powers of the new Corporation in discharging this mission. This structure is generally in line with the existing provisions under the Hong Kong Industrial Estates Corporation Ordinance (Chapter 209), Hong Kong Industrial Technology Centre Corporation Ordinance (Chapter 431) and the Memorandum and Articles of Association of the PHKSPCL. The Administration points out that these three organizations have, in accordance with the respective broad missions and powers given to them, planned and provided the existing services as promulgated. Given the rapidly changing technology landscape and market situation, both locally and internationally, it will not be appropriate to include specific details of existing and future services as part of the legislation. To do so will certainly undermine the ability of the new Corporation to respond effectively and in a timely manner to changing circumstances, which, as experiences show, can be very rapid and unpredictable as far as technology development and businesses are concerned. Nevertheless, the services of the new Corporation will be made known to their potential clienteles widely and effectively. The Administration agrees to request the

new Corporation to brief members on any changes to its purposes as presently provided for in the Bill.

Prudent commercial principles

9. The Bills Committee notes that under clause 7 of the Bill, the new Corporation shall conduct its business according to prudent commercial principles. Some members are concerned that the new Corporation may determine fees for services at a level which is higher than their actual costs in order to generate financial returns. This may defeat the purposes of establishing the Corporation to promote industrial development and to assist Hong Kong start-ups or existing small high-tech firms to get off the ground. As a public body receiving grants and subsidies from the Government, a member is worried about the gradual development of the Corporation into a monopolized body, and the resulting high service fees and impact on the growth of the small and medium-sized enterprises in Hong Kong.

10. Members note the Administration's advice that the new corporation will need to be operated in accordance with prudent commercial principles, otherwise regular subsidies from the Government will be required, and, in turn, will affect the service quality and create other competition-related problems. To avoid unlimited subsidies from the Government whilst assisting Hong Kong's industrial and technological development, a proper balance will need to be maintained in actual implementation. Given that these three existing organizations were started with very considerable resources input from the Government, the Administration has advised that there will be no question of any derogation from the Government's commitment to the public mission of the new Corporation as set out in clause 6 of the Bill. Indeed, the intention of clause 8(2)(i) is to provide the new Corporation with flexibility in determining the level of fees, taking into account the nature of the services to be provided, the needs of different users and the overall financial management of the new Corporation. As regards members' concern about the gradual development of the Corporation into a monopolized body, the Administration has advised that there is no case of monopolization. Since there are similar services provided by the private sector, tenants will switch to the private sector or move to the mainland if the fees were set too high by the new Corporation.

11. On the level of subsidies granted to the small firms under the Business Incubation Programme, the Bills Committee notes that the HKITCC may offer concessionary rates for its clients, who are start-up companies of its incubation programme, but would otherwise charge full market rate for any ordinary companies. A comprehensive package of value-added business development services, including management, marketing, investment matching and general business services are also provided to these start-up companies at nominal costs or free of charge.

12. The Bills Committee also takes note of some members' worries about the requirement for the new Corporation to operate on a self-financing basis and to pursue for profit. It is considered that the new Corporation shall aim at achieving a wider policy objective of assisting the development of the manufacturing industry, irrespective of cost considerations. Any surplus from its business operation should have been ploughed back to the Corporation for the purpose of assisting the development of the industry. Another suggestion from members is that the new Corporation shall only operate as a cost centre which provides supporting services to the industry. On the provision of business development services by the HKITCC, a member is of the view that the Administration shall strive to create the most conducive environment for the small and medium-sized enterprises to develop and prosper, and hence, the fees to be charged shall exclude any profit element.

13. The Administration clarifies that the Bill does not provide for the new Corporation to operate on a self-financing basis. The new Corporation is also not intended to pursue for profit. Being a public body, even if the new Corporation is able to attain some profits through its operation, the "revenue" would not be distributed among share holders as is the case of the private sector. In providing infrastructural support to facilitate Hong Kong's industrial and technological development, some form of subsidies in terms of land premium and construction costs have been provided to the industries. Whilst the Government is committed to providing all necessary support to the manufacturing industry, it will be open to debate whether subsidies, irrespective of cost considerations, shall be given continuously. The proposed arrangement already strikes to create a balance. On one hand, the new Corporation may offer concessionary rates for its clients to get off the ground. On the other hand, commercial tenants shall pay the market rates for using the related premises and services. This kind of cross-subsidization will ensure that the new Corporation has sufficient funds to run the incubation programme for the benefit of the whole industry. The Administration also confirms that under the existing legislation, the HKITCC is already conducting its business according to prudent commercial principles. As such, the proposed arrangements are in line with the existing practices.

14. Notwithstanding the above, a member is concerned that the requirement for the Corporation to conduct its business in accordance with prudent commercial principles may limit its ability to provide affordable services or be non-viable altogether, given the very specialized services that the new Corporation has to provide. The Administration points out that presently, HKIEC has a profit of several hundred million dollars whereas HKITCC has a reserve of some 100 million dollars. If the operating experience of the HKIEC and the HKITCC is any guide, the application of commercially prudent principles is not an unattainable goal. In this connection, the consolidation of the three existing organizations into a new Corporation will provide further and better scope for planning and organizing services and resources. Further, the new Corporation may be able to raise additional income from its equity on technology start-ups in various forms as provided for under clause 8(4)(b) of the Bill.

Financial monitoring of the new Corporation

15. With regard to members' concern about the financial monitoring of the new Corporation, the Administration has advised that the Bill has provided that the new Corporation is required to send to the Financial Secretary estimates of its income and expenditure for the subsequent financial year for approval. The business plan of the new Corporation also enables the Government to monitor and assess its performance. The Financial Secretary shall cause a copy of each of the documents specified in the relevant provisions to be laid on the table of the Legislative Council as appropriate. On the sources of income, the Bills Committee notes that apart from rentals which are relatively stable, the Corporation can also waive or lower the rentals for technology start-ups in return for their shares. This kind of equity investment may enable the Government to attain a higher rate of return. At the request of the Bills Committee, the Administration agrees to request the new Corporation to include appropriate performance indicators in its annual reports to facilitate subsequent monitoring.

The Board

16. The Bills Committee notes that the new Corporation will be governed by the Board of Directors which consists of :

- (a) the Chairman, to be appointed by the Chief Executive; and
- (b) 8 to 16 members (such number to be determined by the Financial Secretary) to be appointed by the Financial Secretary.

17. The Bills Committee has explored whether it is necessary to set out in the Bill the composition of the future Board, including the number of public officers to be seated on the Board so as to ensure that there are sufficient members from the relevant sectors and a balanced composition is maintained. The Administration's response is that it should leave the present provisions intact without stipulation of the professional and institutional sources of membership of the Board and their respective numbers so as to provide for flexibility to deal with any changing needs of the Corporation in pursuing its public mission in the rapidly changing technology development/business environment.

18. The Bills Committee has also discussed with the Administration issues concerning the staffing arrangement after the merger. For staff redundancy, the Bills Committee notes that the Boards of the HKIEC, the HKITCC and the PHKSPCL have agreed that, prior to the establishment of the merged body, existing staff of the three organizations should be pooled together to form a common executive team for more flexible and effective use of staff resources. This staff sharing arrangement was implemented on 1 December 2000, and as a result, a total of 12 staff were made redundant.

19. Concern has also been expressed about the future remuneration package of the Chief Executive Officer which may have implications on the level of fees to be charged by the new Corporation, given the need to adhere to the "Users-pay" principle and to achieve full cost recovery. According to the Administration, the remuneration package of the staff of the HKIEC is at present comparable with that of the civil servant whereas the other two organizations are fixed according to market rates. Upon the merger, the new Board will review the remuneration package of its staff. The initial view of the Administration is that the remuneration package of the new Chief Executive Officer shall not be more favourable than the present package of the interim common Chief Executive Officer who is now heading the common executive team of the three bodies. The Bills Committee notes that the new Corporation will review the size of its establishment, taking into account the changing workload and functions of the new Corporation from time to time.

20. The Bills Committee has expressed concern about whether non-official members serving on boards shall be held responsible for the omissions of the executives of the new Corporation. It notes that after the merger, the new Board will be responsible for setting out the policy direction of the new Corporation for implementation by the executive team. As the operations of the three organizations have been found to be working well, the Administration envisages no problem in future operation.

Committee Stage amendments

21. After discussion with the Bills Committee, the Administration has accepted a number of members' suggestions and agreed to move Committee Stage amendments (CSAs) accordingly. These CSAs cover technical amendments and improvements to various provisions in the Bill. The major ones include the amended provision to enable public access to information regarding interests declared by members of the Board or a Committee (Clause 10) and the provision to provide for a general description of the duties of the Chief Executive Officer so that the relationship between the Board, the Chairman of the Board and the Chief Executive Officer can be made clearer and more explicit (Clause 14). A full set of the CSAs from the Administration is in **Appendix II**. The Bills Committee has not proposed any CSAs.

Consultation with the House Committee

22. The Bills Committee has reported its deliberation to the House Committee on 9 March 2001 and Members supported the resumption of the Second Reading debate on the Bill.

**Bills Committee on
Hong Kong Science and Technology Parks Corporation Bill**

Membership list

Chairman	Hon Kenneth TING Woo-shou, JP
Members	Hon James TIEN Pei-chun, JP Ir Dr Hon Raymond HO Chung-tai, JP Hon Eric LI Ka-cheung, JP Dr LUI Ming-wah, JP Prof Hon NG Ching-fai Hon HUI Cheung-ching Hon CHAN Yuen-han Hon CHAN Kam-lam Hon SIN Chung-kai Hon YEUNG Yiu-chung Hon CHOY So-yuk Hon LAU Ping-cheung
	(Total : 13 Members)
Clerk	Mr Andy LAU
Legal Adviser	Ms Bernice WONG
Date	2 February 2001

HONG KONG SCIENCE AND TECHNOLOGY PARKS CORPORATION BILL

COMMITTEE STAGE

Amendments to be moved by the Secretary for
Commerce and Industry

<u>Clause</u>	<u>Amendment Proposed</u>
6 (1) (b)	By deleting "industry" and substituting "manufacturing and service industries".
10	(a) In subclause (1), by adding "董事局" before "如此". (b) By adding - "(3) The Corporation shall establish and maintain a register ("the register") for the purposes of this section. (4) Where a person makes a declaration required under subsection (1), the Corporation shall cause the name of the person to be entered in the register

together with the particulars contained in the declaration, and if, in accordance with such a requirement, the person subsequently makes any such declaration, the particulars already so entered shall be added to or otherwise amended in such manner as the Corporation considers appropriate.

(5) The Corporation shall make the register available for public inspection at its principal office at any reasonable time."

14

(a) By renumbering it as clause 14(1).

(b) By adding -

"(2) The Chief Executive Officer -

(a) notwithstanding section 11, is the administrative head of the Corporation and is responsible, subject to the direction of the Board, for administering the

affairs of the
Corporation; and
(b) has, subject to that
direction, such other
responsibilities as may
be assigned by the
Board." .

33 By adding -

"(1A) A bylaw made under subsection
(1) is subsidiary legislation." .

Schedule 3 By adding -

"10. Delivery of books, etc.

All books, papers, minutes,
receipts, accounts or other document
relating to HKIEC, HKITCC or PHKSPCL that
were under the care and custody of HKIEC,
HKITCC or PHKSPCL immediately before the
appointed day shall be delivered to the
Corporation on that day by the person who
has the care and custody of those
documents on the commencement of that
day." .