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Legislative Council

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Finance Committee of the Legislative Council

**Minutes of the 11th meeting
held at the Legislative Council Chamber
on Friday, 24 June 2005, at 2:30 pm**

Members present:

Hon Emily LAU Wai-hing, JP (Chairman)
Hon CHAN Kam-lam, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Dr Hon LUI Ming-wah, JP
Hon Margaret NG
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Yuen-han, JP
Hon Bernard CHAN, JP
Hon LEUNG Yiu-chung
Hon SIN Chung-kai, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, JP
Hon Jasper TSANG Yok-sing, GBS, JP
Dr Hon YEUNG Sum
Hon LAU Chin-shek, JP
Hon LAU Kong-wah, JP
Hon LAU Wong-fat, GBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon CHOY So-yuk
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, JP

Hon Albert CHAN Wai-yip
Hon Frederick FUNG Kin-kee, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon LI Kwok-ying, MH
Dr Hon Joseph LEE Kok-long
Hon Daniel LAM Wai-keung, BBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon MA Lik, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon Patrick LAU Sau-shing, SBS, JP
Hon Albert Jinghan CHENG
Hon KWONG Chi-kin
Hon TAM Heung-man

Members absent:

Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon Howard YOUNG, SBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon CHEUNG Hok-ming, SBS, JP
Hon CHIM Pui-chung

Public officers attending:

Mr Martin GLASS, JP	Acting Permanent Secretary for Financial Services and the Treasury (Treasury)
Miss Elizabeth TSE, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Mr Alfred FOK	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)

Miss Christine CHOW	Principal Assistant Secretary for Housing, Planning and Lands (Planning and Lands)
Mr TSAO Tak-kiang, JP	Director of Civil Engineering and Development
Mr Elvis AU Wai-kwong	Assistant Director of Environmental Protection (Environmental Assessment)
Mr YEUNG Wing-tsan	Chief Engineer (Tseung Kwan O and Sai Kung) of Civil Engineering and Development Department
Prof Arthur LI, GBS, JP	Secretary for Education and Manpower
Mr Chris WARDLAW	Deputy Secretary for Education and Manpower
Ms Irene YOUNG	Principal Assistant Secretary for Education and Manpower (Higher Education)
Mr Lawrence KWAN	Project Coordinator (Higher Education) of Education and Manpower Bureau
Mr Francis LEE, IDS	Director of Investigation (Private Sector) of ICAC
Mrs Betty CHU	Assistant Director (Administration) of ICAC
Mr Vitus CHUNG	Acting Principal Investigator of ICAC
Mr Francis HO, JP	Permanent Secretary for Commerce, Industry and Technology (Communications and Technology)
Mr Anthony WONG, JP	Commissioner for Innovation and Technology
Mr Brian LO	Assistant Commissioner for Innovation and Technology (Funding Schemes)
Mr Andrew POON	Principal Assistant Secretary for Education and Manpower (Quality Assurance)
Mr Freely CHENG	Principal Assistant Secretary for Health, Welfare and Food (Family)
Mr LI Wing	Controller, Student Financial Assistance Agency
Mr FUNG Pak-yan	Assistant Director of Social Welfare (Family and Child Welfare)
Mr Peter NG	Chief Social Work Officer (Family and Child Welfare) of Social Welfare Department
Mr CHAN Hung-to	Senior Education Officer (Harmonization of Pre-primary Services) of Education and Manpower Bureau

Clerk in attendance:

Ms Pauline NG	Assistant Secretary General 1
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Staff in attendance:

Miss Becky YU
Mrs Mary TANG
Ms Caris CHAN
Mr Frankie WOO

Chief Council Secretary (1)1
Senior Council Secretary (1)2
Senior Legislative Assistant (1)1
Legislative Assistant (1)2

Action

Item No. 1 - FCR(2005-06)18

**RECOMMENDATIONS OF THE ESTABLISHMENT SUBCOMMITTEE
MADE ON 9 JUNE 2005**

The Chairman put the item to vote. The Committee approved the proposal.

Item No. 2 - FCR(2005-06)19

**RECOMMENDATIONS OF THE PUBLIC WORKS SUBCOMMITTEE MADE
ON 11 MAY 2005, 25 MAY 2005, 1 JUNE 2005 AND 8 JUNE 2005**

2. The Chairman advised that pursuant to the recommendation of the Public Works Subcommittee (PWSC) at its meeting on 11 May 2005, PWSC(2005-06)4 would be put to vote as a separate item. The item was originally scheduled for discussion at the meeting of the Finance Committee meeting on 10 June 2005 but was subsequently deferred to the current meeting because the Administration needed more time to consider the remaining engineering works of Sha Tin New Town.

3. Referring to PWSC(2005-06)10 on the development of local open spaces in Areas 25, 25A and 25B, Tin Shui Wai, Mr Albert CHAN said that he was not opposed to the proposal, but requested to put on record his dissatisfaction on the Administration's failure to take account of local needs for public facilities, such as libraries and swimming pools, to be provided in the open spaces. The issue had also been raised at meetings of PWSC and the Panel on Home Affairs. The Chairman said that the provision of public facilities would be discussed by the Subcommittee to Follow Up the Outstanding Leisure and Cultural Services Projects of the Former Municipal Councils at its next meeting on 28 June 2005.

4. The Chairman then put FCR(2005-06)19 except PWSC(2005-06)4 to the vote. The Committee approved the proposal.

PWSC(2005-06)4 177CL Sha Tin New Town, remaining engineering works

5. Mr Patrick LAU enquired about the rationale for not providing noise barriers in front of the Ronald MacDonald House (RMH) at To Shek Street. The Chief Engineer (Tseung Kwan O and Sai Kung) of Civil Engineering and Development Department (CE, CEDD) explained that in accordance with the Hong Kong Planning Standards and Guidelines and the current practice adopted by the Environmental Protection Department, noise barriers would be provided if the noise level from a new or widened road was higher than 70 dB(A) or it would contribute significantly to the cumulative noise level which had already exceeded the limit by at least one dB(A). As the noise impact of the widened To Shek Street on RMH and its neighbourhood did not meet with the aforesaid criteria, provision of noise barriers in the area was considered not necessary. However, in view of the special needs of the children in distress who were temporarily housed in RMH awaiting transfer to the Prince of Wales Hospital for treatment, the Administration agreed in this exceptional case to provide the windows of RMH with thicker panes to protect the children from exposure to excessive noise.

6. Mr Patrick LAU asked if consideration could be given to planting more trees in the said location to improve the aesthetics on the one hand and to mitigate the noise impact on the other. CE, CEDD responded that trees would be planted in the area, but these would unlikely have a significant effect in reducing noise levels. The Assistant Director of Environmental Protection (Environmental Assessment) (ADEP) added that the trees would have to be very tall and thick in order to have a noise mitigating effect. It was estimated that a tree wall of 10-metre thick and four-metre high would be required to reduce the noise level by one dB(A). Miss CHOY So-yuk was not convinced of the Administration's response. She pointed out that even without trees, noise level could be reduced by one dB(A) with a 10-metre wide buffer zone. She said that there was successful overseas experience on the use of trees as noise barriers, and that the Administration should collate the relevant information for members' reference. ADEP said that the use of noise barriers and glazed windows had been proved to be effective in reducing noise impact but not trees. While agreeing that the use of glazed windows was an effective means, Ir Dr Raymond HO still believed that the planting of trees could be of some use in reducing the noise impact despite the lack of evidence in this respect.

7. Mr LEE Wing-tat enquired whether remedial measures would be taken if it turned out that the actual noise levels arising from new or widened roads would contribute to the cumulative noise impact by more than one dB(A). ADEP said that noise impact assessments conducted in Hong Kong were based on internationally accepted guidelines and minor deviations of one to two dB(A) were considered acceptable. The increase in traffic would not have a significant impact on the noise levels as these would only increase by three dB(A) if the traffic volume was doubled. Besides, there were established criteria in determining the inclusion of existing roads in the noise barrier retrofitting programme. The Administration would monitor the situation and consider the need for noise mitigation measures where necessary.

Given that noise impact of the widened To Shek Street on RMH and its neighbourhood was within acceptable limits, it was unlikely that further mitigation measures would be needed.

8. The Chairman informed members that the Research and Library Services Division of the Legislative Council Secretariat would be conducting a research on the overseas experience on mitigation measures against traffic noise and the findings would be made available to members in a few months' time for further follow-up by relevant panels.

9. The Chairman put the item to vote. The Committee approved the proposal.

Item No. 3 - FCR(2005-06)24

**HEAD 156 GOVERNMENT SECRETARIAT : EDUCATION AND
MANPOWER BUREAU**

◆ **Subhead 700 General non-recurrent**

New Item "Measures to Support the Development of the New Academic Structure for Senior Secondary Education and Higher Education"

10. The Chairman informed members that the Panel on Education was consulted on the proposal at its meeting on 3 June 2005.

11. Dr YEUNG Sum, Chairman of the Panel on Education, said that the Panel was generally supportive of the proposal which would provide the necessary resources to support the University Grants Committee (UGC)-funded institutions and secondary schools in the preparatory and transitional period for the new academic structure (the "3+3+4" academic structure).

12. Miss TAM Heung-man enquired about the mechanism to monitor and assess the allocation of resources. The Secretary for Education and Manpower (SEM) said that the new academic structure was a major restructuring programme and milestones were set to monitor its progress. A working group comprising a large number of staff from the Education and Manpower Bureau had been engaged in the development of the new academic structure.

13. Mr Tommy CHEUNG said that Members of the Liberal Party were supportive of the proposal. Mr CHEUNG Man-kwong said that Members of the Democratic Party supported the proposal. Miss CHOY So-yuk also indicated that Members of Democratic Alliance for the Betterment and Progress would support the proposal.

14. The Chairman put the item to vote. The Committee approved the proposal.

Item No. 4 - FCR(2005-06)22

LOAN FUND

HEAD 252 – LOANS TO SCHOOLS/TEACHERS

♦ **Subhead 106 Start-up loan for post-secondary education providers**

15. The Chairman informed members that the Panel on Education noted the proposal at its meetings on 9 May and 13 June 2005.

16. Mr WONG Kwok-hing noted that the investment in terms of cost for the provision of degree courses and sub-degree courses was more or less the same. However, the opportunities which degree and sub-degree holders would be exposed to were very much different. In this connection, he enquired if a cost and benefit analysis on the continued provision of sub-degree courses had been conducted to ensure that this would not be merely regarded as an option for students who were unable to find employment. SEM said that it was the Government policy that about 60% of students would have the opportunity to receive tertiary education by 2010. To this end, a number of UGC-funded institutions were offering sub-degree courses on a self-financing basis to students as an alternative to degree courses and these sub-degree courses were well received. With the increase in the number of second and third year places in the publicly-funded degree courses, more graduates of sub-degree courses could articulate to degree courses. He therefore did not agree to the lack of opportunities available to students pursuing sub-degrees.

17. The Chairman put the item to vote. The Committee approved the proposal.

Item No. 5 - FCR(2005-06)20

CAPITAL WORKS RESERVE FUND

HEAD 710 – COMPUTERISATION

Independent Commission Against Corruption

♦ **New Subhead “Integration and Application of Information Technology in the New Headquarters Building of the Independent Commission Against Corruption”**

18. The Chairman informed members that the Panel on Security was briefed on the funding proposal at its meeting on 13 June 2005.

19. Mr James TO, Chairman of the Panel on Security, said that the Panel raised no objection to the proposal, but was concerned about the protection of data before disposal of obsolete computer hardware. The Administration was also requested to provide supplementary information on the net expenditure, establishment changes and staff costs arising from the project.

20. Despite the confirmation from the Independent Commission Against Corruption (ICAC) that the first two phases of the Information Technology (IT) Infrastructure Development Plan (the Plan) had not included enhancement to the interception of communication system of ICAC, Mr James TO held the view that the implementation of the database encryption for confidential systems and the Document Management System to transform paper documents into electronic format under phase 1 of the Plan, as well as the upgrading of the Operations Department Information System (OPSIS) to provide for intelligence analysis and operations control under phase 2 of the Plan as set out in enclosure 1 to the information paper would contribute to the enhancement of the interception of communication system.

21. In response, the Director of Investigation of ICAC (Private Sector) (D/PS, ICAC) explained that the upgrading of IT infrastructure and the implementation of information and management systems were recommended by the consultants after a careful study and details of operation would be set out clearly. In gist, the Document Management System was for general use by non-investigating officers while the database encryption for confidential systems was used for general investigation. Likewise, the upgrading of OPSIS to provide for intelligence analysis and operations control under phase 2 of the Plan was meant to enhance storage and facilitate sharing and retrieval of information, and all these should not be taken as an enhancement of the interception of communication system which was not accessible by general investigating staff.

22. Mr James TO asked if there was any proposed enhancement works for the interception of communication system in future phases of the Plan. He said that he would find it hard to believe that ICAC had not included any proposals to upgrade its interception of communication system given the on-going interception work. D/PS, ICAC reiterated that the present funding and the funding to be sought for the implementation of phase 2 of the Plan in 2008 were not related to the enhancement of the interception of communication system. Upon relocation to the new Headquarters Building in 2008, ICAC would review the need for upgrading its core systems. Until then, he could not meaningfully comment on the need for upgrading the interception of communication system.

23. Mr James TO further enquired whether the interception of communication system was considered a part of the existing IT infrastructure system and if so, whether it would be relocated to the new Headquarters Building. D/PS, ICAC said that expenses associated with the upgrading and relocation of the interception of communication system were not included in the present funding proposal but would be borne by ICAC. He declined to disclose further details on such expenses.

24. Miss TAM Heung-man enquired about the measures which would be taken to safeguard the confidential information contained in the IT systems of ICAC during its relocation to the new Headquarters Building. The Acting Principal Investigator of ICAC (PI, ICAC) said that there were established guidelines on protecting the confidentiality of information and these had been further enhanced with the

installation of added security features. The migration of the computer systems would be closely monitored during the relocation to the new Headquarters Building.

25. Miss TAM Heung-man then asked about the service life of the information and management systems under phase 1 of the Plan and whether provisions were made for their maintenance and upgrading. PI, ICAC said that the present funding proposal was meant to cover the migration of the existing systems to the new Headquarters building, upgrading of IT systems as appropriate, and system maintenance.

26. While indicating support for the funding proposal which would provide the necessary IT upgrading, Ir Dr Raymond HO enquired if the proposal would improve the security of information systems and enhance operational efficiency. D/PS, ICAC said that first developed in early 1990s and later upgraded in 2000, OPSIS, which contained live investigation data of ICAC, was connected to the Government Office Automation (GOA) system. Included in the funding proposal would be a separate, secure and closed network for confidential operation systems which would not only address the security concern over the connection of OPSIS with GOA but would also further enhance the security of ICAC's IT infrastructure and systems.

27. The Chairman put the item to vote. The Committee approved the proposal.

Item No. 6 - FCR(2005-06)21

INNOVATION AND TECHNOLOGY FUND

HEAD 111 – INNOVATION AND TECHNOLOGY

- ◆ **New Subhead “Establishment of Research and Development Centre for Nanotechnology and Advanced Materials”**
- ◆ **New Subhead "Establishment of Research and Development Centre for Textile and Clothing"**
- ◆ **New Subhead "Establishment of Research and Development Centre for Automotive Parts and Accessory Systems"**
- ◆ **New Subhead "Establishment of Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies"**
- ◆ **New Subhead "Establishment of an Incubation-cum-Training Centre to support Digital Entertainment Development by the Hong Kong Cyberport Management Company Limited"**
- ◆ **New Subhead "Development of technologies and facilities to design and build mechanical watch movements by the Chinese University of Hong Kong"**

28. The Chairman informed members that the Panel on Commerce and Industry (CI Panel) was consulted on the proposal at its meeting on 17 May 2005. She also drew members' attention to the supplementary information paper provided by the Administration and a letter from a group of people engaged in research and development expressing their concerns about the funding proposal, both of which were tabled at the meeting.

29. Mr WONG Ting-kwong, Deputy Chairman of the CI Panel, said that the Panel did not object to the adoption of a new strategy of innovation and technology development and the new three-tier funding model of the Innovation and Technology Fund (ITF) to support research and development (R&D) in Hong Kong. Panel members however stressed the need for the Administration to put in place a control mechanism to monitor the operation of the R&D Centres to ensure that public funds were used in a cost-effective manner. The Administration had explained that it attached great importance to corporate governance and control mechanism. The disbursement of ITF by instalments would be contingent upon the Administration's acceptance of the progress report endorsed by the R&D Centres. To ensure that the projects would meet the needs of the industry, the R&D Centres were expected to obtain support and participation from the industry concerned and to establish partnership with other R&D institutions. Given the high operating costs of the Applied Science and Technology Research Institute Company Limited (ASTRI), the Administration had been requested to provide a detailed breakdown on the five-year operating cost of ASTRI. It also undertook to report the operation and performance of the R&D Centres to the CI Panel annually.

30. Mr Jeffrey LAM declared interest as a member of the Vetting Committee of ITF while Mr Andrew LEUNG declared that he was the Chairman of the Hong Kong Productivity Council which was an ITF applicant.

31. Noting that the R&D Centres proposed to be set up would cater for the needs of industries in both Hong Kong and the Pearl River Delta (PRD) Region, Mr WONG Kwok-hing enquired about the benefits, particularly in terms of job opportunities, which the proposal would bring to Hong Kong workers. He expressed concern that a large part of the investment might benefit the workforce in the Mainland rather than that in Hong Kong. The Permanent Secretary for Commerce, Industry and Technology (Communication and Technology) (PSCT) said that the economic and industrial development in both Hong Kong and the PRD Region was inter-related. In fact, some of Hong Kong's industries were based in the PRD Region and both sides had benefited through this close relationship. The Commissioner for Innovation and Technology (CIT) said that at present, factories in the PRD Region were mainly performing assembly processes using accessories and parts imported from overseas. With the establishment of R&D Centres to provide a focal point for applied R&D in specific areas of the relevant industries, the required accessories and parts could be manufactured in Hong Kong for sale as patents in the PRD Region. This would help the development of high technology and high value-added industries in Hong Kong, leaving the more labour-intensive work to be performed in the PRD Region.

32. As the bulk of the manufacturing processes were still in the PRD Region, Mr WONG Kwok-hing remained concerned that the proposal would only benefit the workforce in the PRD Region. He held the view that the Administration should encourage industries, such as the watch manufacturing industry, to set up their manufacturing base in Hong Kong for the benefit of the local workforce. CIT said

that one of the aims of the proposal was to develop the associated design method, materials selection, and manufacturing technologies in the fabrication of the mechanical watch movement in Hong Kong. In fact, the watch manufacturing industry intended to invest about \$100 million in its development which was expected to create about 200 job opportunities in Hong Kong.

33. Noting that ITF had been financing a large number of projects to promote innovation and technology upgrading in the manufacturing and service sectors, Mr LEE Wing-tat enquired if there were any products developed under these projects which had been put to beneficial use by the private sector. While not opposing to the proposal, Dr KWOK Ka-ki asked how ITF had helped improve the economy of Hong Kong. He opined that the improvements brought about by ITF would need to be quantified in terms of economic benefits and job opportunities. He also sought elaboration on the patents which had been developed and funded by ITF as well as the progress in the development of automotive parts and accessory systems.

34. In response, CIT said that since its establishment in 1999, ITF had provided financial assistance of about \$1.8 billion to more than 700 projects. About 50% of these projects had already been found to be contributing to innovation and technology upgrading in the industries. PSCT added that ASTRI was established to perform high quality R&D for transfer to industries. The funding of applied R&D projects had indeed helped enhance the competitiveness of the industries and improved the quality and design of products. As regards the development of automotive parts and accessory systems, PSCT said that there were a number of small and medium enterprises (SMEs) in Hong Kong engaged in the manufacture of automotive parts and accessory systems such as safety and audio systems. The export of these products had amounted to over \$10 billion. As most of these manufacturers were SMEs, they would require the necessary support from ITF in enhancing their competitiveness. He added that the disbursement and achievements of ITF were regularly reported to the CI Panel and he would be pleased to provide such information again for members' reference.

35. Miss TAM Heung-man enquired about the criteria for determining the priority and funding allocation of the R&D projects. PSCT said that the Administration had conducted an 18-month study on the new strategy of innovation and development and had consulted the industries several times. It had issued a consultation paper to invite public views on the proposal of setting up R&D Centres. Based on the feedback received, the industry was generally supportive of the proposal and some of the R&D institutions had indicated their willingness to assist in the development of the new strategy. As regards funding of projects, PSCT said that this would be decided by the Steering Committee of individual R&D Centres set up for the overall management of the respective Centres and subject to the final approval of CIT.

36. Mr SIN Chung-kai held the view that more efforts should be devoted to the development of software to meet the needs of the information and communication technology industry. He then enquired about the control mechanism for the R&D

Centres and their projects, in particular, those not exceeding the prevailing funding ceiling of \$15 million which were not subject to approval by the Finance Committee. While agreeing to the need for development of software, CIT stressed the importance of support and participation from industries in making the R&D Centres successful. By way of illustration, funding from ITF for R&D projects could not be made possible unless the industry concerned was prepared to provide 10% start-up funding for the project. The contribution from the industry would be gradually increased to 40% as the project progressed. There would be much transparency in the operation of the R&D Centres which were required to provide annual reports on their operation and achievements to the Administration.

37. Dr LUI Ming-wah said that he would support the proposal which had gone through adequate consultation. He was pleased with the Government's effort in supporting industrial development in Hong Kong. The establishment of R&D Centres would provide a focal point for applied R&D in specific areas for the relevant industries to enhance their competitiveness. The industries which would benefit from the proposal would be the Nanotechnology in which the Polytechnic University (PolyU) had conducted much research on and the development of automotive parts and accessory systems which would have much potential having regard to their high demand in the Mainland. There were also great opportunities for further development of the watch manufacturing industry in Hong Kong. While it was difficult to quantify the number of job opportunities to be created at this stage, the increase in competitiveness of the local industries would indeed bring about economic benefits and job opportunities to Hong Kong in the long run.

38. While supporting the need for R&D in a knowledge-based society like Hong Kong, Ms Margaret NG questioned why the bulk of the funding for R&D projects had to be provided by Government rather than the industries which would set to benefit from these projects. She enquired if there were any major enterprises that were conducting R&D projects on their own and if not, whether efforts would be made to encourage them to do so. She opined that if Government continued to subsidize R&D for the industries, they would not have the incentive to conduct their own researches. As such, industries should be required to contribute to the funding of R&D projects. She also requested the Administration to provide information on the cost-effectiveness of R&D projects for members' reference. Expressing similar concerns, Mr LEE Wing-tat considered it necessary for the industries to contribute more to the R&D projects as in the case of the United States. Referring to the annual report of ITF for 2003-04, he found that it was very brief and contained very little information about the cost-effectiveness of R&D projects. He also noted with concern that about 20% of the R&D projects could not be completed and enquired about the disbursement of ITF under such circumstances. He said that there might be a need to hold further meetings on the subject to facilitate a better understanding on the use of ITF.

39. In reply, PSCT and CIT said that unlike the industries in the United States which were highly developed, those in Hong Kong were usually of a much smaller scale and might not have the resources for conducting R&D projects on a wide scale. Government funding would therefore be required for the core R&D projects. SMEs wishing to make use of the results of the R&D projects could do so by way of payment of a license fee calculated on a cost-recovery basis. It was hoped that the new strategy for innovation and technology development would bring about greater improvements to the industries, and that the R&D Centres could be operated by the industries on a self-financing basis in five years' time.

40. Ms Miriam LAU said that Members of the Liberal Party were supportive of the proposal because, unlike private R&D projects which would benefit the proponents only, R&D projects funded by ITF would benefit the industries as a whole. Referring to the establishment of a R&D Centre for the logistics and supply chain management (LSCM) enabling technologies to meet the R&D needs of the industries, Ms LAU said that as a member of the Hong Kong Logistics Development Council (HKLDC), she was not aware of the funding for the setting up of the R&D Centre for LSCM. She therefore enquired about the relationship between the Centre for LSCM and HKLDC and how the needs of the industry could be addressed. She also noted with concern that the Centre would only engage the Hong Kong Article Numbering Association on Standardization and Compliance as the only strategic partner lest this would confine the R&D projects to Radio Frequency Identification (RFID)-enabled warehouse management system, thereby limiting their scope. She further queried why the Administration had only invited the University of Hong Kong (HKU), the Chinese University of Hong Kong (CUHK) and the Hong Kong University of Science and Technology (HKUST) to participate in the development of the Centre but excluded PolyU which had been conducting studies on the RFID-enabled warehouse management system and running courses on logistics.

41. In response, CIT confirmed that the R&D Centre for LSCM would cooperate with HKLDC. He added that while HKU, CUHK and HKUST would be acting as host universities in the Steering Committee for the administration of the R&D Centre for LSCM, all other universities, including PolyU, would be participating in the R&D activities of the R&D Centres. Ms Miriam LAU questioned the representativeness of the Steering Committee. She opined that to facilitate cooperation between HKLDC and the R&D Centre for LSCM, the Steering Committee should regularly meet with or be represented in the E-Logistics Project Group under HKLDC so that the views of the industries would be adequately reflected. More should be done to ensure that the R&D projects would meet the needs of the industries. PSCT agreed to follow up on the concerns raised and take measures to facilitate the cooperation between HKLDC and the Steering Committee of the R&D Centre for LSCM.

42. Mr Abraham SHEK questioned the need to provide funding of \$30.8 million from ITF for the establishment of an Incubation-cum-training Centre (ICT Centre) for digital entertainment development by the Hong Kong Cyberport Management Company Limited (HKCMCL), which in his view should be able to finance its own

development. PSCT said that the ICT Centre was established two years ago to support companies in the development of innovative digital entertainment in Hong Kong. While the ICT Centre was set up as a unit under Cyberport, its management was independent from Cyberport with funding provided by the Government and the industries.

43. Mr Abraham SHEK was skeptical that the provision of rent-free office space under the Incubation Programme for entertainment and media start-up companies in the Cyberport was meant to boost its low occupancy rate. While he was supportive of the new strategy of innovation and technology development, he did not consider it appropriate for the Government to use funding from ITF to attract tenants for Cyberport as this had deviated from the original policy intent. He also queried why companies involved in digital entertainment development did not apply for ITF direct. His views were shared by Mr Albert CHENG who also indicated that he would not support the proposal.

44. PSCT said that the establishment of the ICT Centre in the Cyberport would provide a focal point for innovative digital entertainment development and would attract the establishment of digital entertainment companies in Cyberport which had the necessary supporting infrastructure. He said that a lot of SMEs had been using the cyber and infrastructure facilities made available by Cyberport. The provision of subsidy for start-up companies was a common practice and similar arrangements had been adopted in the Science Park. There was a limited time frame within which subsidy would be provided and in the case of the Science Park, the subsidy would cease in three years' time.

45. Mr WONG Kwok-hing enquired about the role of HKCMCL in the development of the ICT Centre, which was expected to generate an income of only \$0.8 million despite a funding commitment of \$30.8 million. He agreed with other members that the provision of rent-free office space at Cyberport for a period of up to two years for the 45 digital entertainment start-up companies was inappropriate as this constituted a transfer of benefits. He also questioned the efficacy and innovation of the Incubation Programme. Mr WONG said that Members of the Hong Kong Federation of Trade Unions would have difficulties in supporting the proposal unless there was concrete evidence that the proposal would bring about job opportunities for the local workforce. He asked if the Administration would consider withdrawing the proposal. In response, PSCT clarified that Cyberport was Government owned, and that the Incubation Programme would be offering professional and youth creativity training on digital entertainment technologies. As to the number of jobs to be created, he said that assuming that each of the 45 start-up companies would employ 20 staff, the number of jobs created would be about 900. He also said that the Administration was not prepared to withdraw the proposal.

46. While supporting initiatives which would help improve the economy and create job opportunities, Mr Albert CHAN held the view that the present proposal would be costly and yet ineffective. Referring to the budget and cash flow of the

R&D Centre for Nanotechnology and Advanced Materials at Enclosure 1 to the paper, he noted with concern the high start-up and operating costs of \$61.4 million for the Centre, which was a third of the total project cost of \$208 million. He questioned the justifications for the unreasonably high operating costs, most of which were spent on administration and staff remuneration. He pointed out that the proposal should aim to create job opportunities for workers rather than those at the management level. He said that he was not prepared to support the proposal lest these R&D Centres would not be able to achieve their intended purpose of improving the economy and creating job opportunities. In reply, CIT clarified that the operating costs of the R&D Centres constituted about 15% to 20% of the total project cost, the latter of which took into account industry contribution and income generated from R&D projects. The remuneration of the Chief Executive Officer of each R&D Centre would be comparable to the professor grade of tertiary institutions, which would amount to about \$2 million per annum.

47. Mr LEUNG Kwok-hung expressed serious doubt on whether SMEs and workers would benefit from the proposal. As such, he was not prepared to support the proposal unless a co-ordinated policy to assist the industries was worked out. He also pointed out the need for major enterprises to undertake R&D projects for the benefit of the industries. PSCT said that as proven in countries like Japan and Korea, there was a need to invest in applied R&D projects to upgrade and enhance the competitiveness of industries.

48. Dr YEUNG Sum suggested that the meeting be adjourned for three minutes so that members could have a chance to discuss among themselves. As time was running out, the Chairman put FCR(2005-06)21 to the vote. Of the members present, 26 members voted for the proposal, 9 members voted against and 11 members abstained. The individual results were as follows:

For :

Mr James TIEN Pei-chun, GBS, JP	Ir Dr Raymond HO Chung-tai, S.B.St.J., JP
Dr LUI Ming-wah, JP	Ms Margaret NG
Mr CHAN Kam-lam, JP	Dr Philip WONG Yu-hong, GBS
Mr WONG Yung-kan, JP	Mr Jasper TSANG Yok-sing, GBS, JP
Mr LAU Kong-wah, JP	Mr LAU Wong-fat, GBS, JP
Ms Miriam LAU Kin-yea, GBS, JP	Miss CHOY So-yuk
Mr TAM Yiu-chung, GBS, JP	Mr Abraham SHEK Lai-him, JP
Mr Tommy CHEUNG Yu-yan, JP	Ms Audrey EU Yuet-mee, SC, JP
Mr Vincent FANG Kang, JP	Mr LI Kwok-ying, MH
Dr Joseph LEE Kok-long	Mr Daniel LAM Wai-keung, BBS, JP
Mr Jeffrey LAM Kin-fung, SBS, JP	Mr MA Lik, JP
Mr Andrew LEUNG Kwan-yuen, SBS, JP	Mr Alan LEONG Kah-kit, SC
Mr WONG Ting-kwong, BBS	Mr Patrick LAU Sau-shing, SBS, JP

(26 members)

Against :

Mr LEUNG Yiu-chung
Mr Albert CHAN Wai-yip
Mr LEUNG Kwok-hung
Dr Fernando CHEUNG Chiu-hung
Miss TAM Heung-man
(9 members)

Mr LAU Chin-shek, JP
Mr Frederick FUNG Kin-kee, JP
Dr KWOK Ka-ki
Mr Albert Jinghan CHENG

Abstention :

Mr Albert HO Chun-yan
Mr CHEUNG Man-kwong
Mr SIN Chung-kai, JP
Mr Andrew CHENG Kar-foo
Mr WONG Kwok-hing, MH
Mr KWONG Chi-kin
(11 members)

Mr James TO Kun-sun
Miss CHAN Yuen-han, JP
Dr YEUNG Sum
Ms LI Fung-ying, BBS, JP
Mr LEE Wing-tat

49. The Committee approved the proposal.

Item No. 7 - FCR(2005-06)23

**HEAD 156 GOVERNMENT SECRETARIAT : EDUCATION AND
MANPOWER BUREAU**

♦ **Subhead 000 Operational expenses**

HEAD 173 STUDENT FINANCIAL ASSISTANCE AGENCY

♦ **Subhead 228 Student financial assistance**

HEAD 170 SOCIAL WELFARE DEPARTMENT

♦ **Subhead 000 Operational expenses**

♦ **Subhead 175 Child care centre fee assistance**

50. Owing to time constraints, the Chairman sought advice from the Administration on whether this item could be deferred to the next meeting on 8 July 2005. The Deputy Secretary for Education and Manpower said that the implementation of the financial assistance schemes under the proposal would be affected if the funding approval was deferred.

51. Dr YEUNG Sum, Chairman of the Panel on Education, said that the proposal was meant to rationalize the financial assistance to service providers and parents/legal guardians/registered custodians upon harmonization of pre-primary services. It would involve the expansion of the Kindergarten Fee Remission Scheme (which would be renamed as the “Kindergarten and Child Care Centre Fee Remission Scheme”) to cover all eligible children of pre-primary services. In light of the Panel’s concern that some of recipients would be affected by the change of the financial schemes, the Administration had agreed to explore any possible measures to support the low-income applicant families that would be affected by the change of financial scheme. He therefore urged members to support the proposal.

Action

52. Noting that the Child Care Services (Amendment) Bill 2005 for the purpose of facilitating the implementation of the harmonization of pre-primary services was under discussion by the relevant Bills Committee, Mr TAM Yiu-chung enquired if the approval of the current funding proposal would have any bearings on the resumption of Second Reading debate on the Bill which would take place on 29 June 2005. The Principal Assistant Secretary for Health, Welfare and Food (Family) said that the Bill was not related to the implementation of financial assistance schemes under the present proposal which was merely an administrative arrangement.

53. Ms Miriam LAU said that she was supportive of the proposal but if members wished to further deliberate on the proposal, consideration could be given to holding a special meeting for the purpose. Mr James TIEN and Mr Abraham SHEK also expressed support for the funding proposal.

54. The Chairman put the item to vote. The Committee approved the proposal.

55. The meeting was adjourned at 4:35 pm.

Legislative Council Secretariat
6 October 2005