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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 18 July 2006, at 2:30 pm
in Conference Room A of the Legislative Council Building

- Members present** : Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP (Chairman)
Hon Vincent FANG Kang, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
- Member absent** : Hon Timothy FOK Tsun-ting, GBS, JP
- Member attending** : Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon CHAN Yuen-han, JP
Hon Howard YOUNG, SBS, JP
Hon WONG Kwok-hing, MH
- Public officers attending** : Agenda Item II

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Clement LEUNG
Deputy Director-General of Trade and Industry

Ms Amy CHEUNG
Principal Trade Officer
Commerce, Industry and Technology Bureau

Agenda Item III

Ms Priscilla TO
Principal Assistant Secretary for Commerce, Industry
and Technology
(Commerce and Industry)

Ms Ada LEUNG
Assistant Director of Intellectual Property
Intellectual Property Department

Ms Loretta W K LAU
Solicitor
Intellectual Property Department

Agenda Item IV

Mr David LEUNG
Principal Assistant Secretary
(Commerce and Industry) (4)

Ms Karen LO
Chief Executive Officer (4)
Commerce and Industry Branch

Agenda Item V

Miss Clara TANG
Assistant Commissioner for Innovation &
Technology (Funding Schemes)
Innovation and Technology Commission

Mr Nicholas YANG
Chief Executive Officer
Hong Kong Cyberport

Mr David CHUNG
Senior Manager (ITO)
Hong Kong Cyberport

Clerk in attendance : Mr Paul WOO
Chief Council Secretary (1)7

Staff in attendance : Ms YUE Tin-po
Senior Council Secretary (1)5

Ms Sharon CHAN
Legislative Assistant (1)6

Action **I Papers issued since last meeting**

LC Paper No. CB(1)1864/05-06(01) -- Financial position of the Applied Research Fund for the period of 1 March 2006 to 31 May 2006

Members noted that the above paper had been issued for the Panel's information.

II Progress and impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA III)

LC Paper No. CB(1)1898/05-06(01) -- Information on "Mainland and Hong Kong Closer Economic Partnership Arrangement Further Liberalization Measures in 2006" provided by the Administration

LC Paper No. CB(1)1977/05-06 -- Background brief on developments of the Mainland and Hong Kong Closer Economic Partnership Arrangement prepared by the Secretariat

2. At the invitation of the Chairman, the Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry)1 (DSCIT(CI)1) briefed members on the outcome of the discussions with the Central People's Government (CPG) on further liberalization of trade in goods and services under CEPA which was detailed in the Administration's paper. In brief, he advised that the Mainland and Hong Kong had signed the agreed text on further liberalization and the confirmation note on rules of origin (ROOs) on 27 June 2006 in Hong Kong. The major developments were as follows –

- (a) On trade in services under the latest round of discussions, the two sides had agreed that there would be 15 further liberalization measures covering 10 services sectors with effect from 1 January 2007. Altogether the preferential market access to the Mainland under CEPA had brought tangible benefits to a total of 27 services

areas in Hong Kong.

- (b) On trade in goods, the Mainland had already granted all products of Hong Kong origin tariff free treatment starting from 1 January 2006 upon applications by local manufacturers and upon the CEPA ROOs being agreed and met. For products without agreed ROO, Hong Kong manufacturers might apply to include those products into the subsequent rounds of ROO discussion held twice a year. In the first round of discussion this year, ROOs on 37 products had been worked out and were eligible for zero tariff which took effect on 1 July 2006. Together with ROOs agreed during previous discussions, this had added up to a total of 1 400 Hong Kong products which could enjoy zero tariff when being exported to the Mainland.
- (c) In the first two years of implementing CEPA, about 29 000 new jobs were estimated to be created. The unemployment rate in Hong Kong had dropped from 8.6% in 2003 to 4.9% in the recent months of 2006 arising from the economic benefits brought by CEPA. In more precise terms, unemployment rate in the manufacturing, retail and catering sectors had dropped from 7.6%, 9.4% and 13.4% in 2003 to 5.7%, 6.2% and 8.5% respectively in the first quarter of 2006.

3. DSCIT(CI)1 added that following its report on the key findings of the study on the economic impact of CEPA I in 2005, the Administration would conduct another review on the impact of CEPA measures on the Hong Kong economy at a later stage in the light of the implementation of CEPA so far .

Trade in services

4. Noting that the Mainland and Hong Kong had committed to encourage mutual recognition of professional qualifications as part of the services trade under CEPA, Dr Raymond HO pointed out that the local engineering and building surveying professions were still being confronted with various barriers of entry to the Mainland market with all the associated access restrictions such as the high capital and assets requirement for setting up business in the Mainland. Moreover, despite having obtained Class I Registered Qualification in the Mainland, many local professionals were disappointed to find that they were still unable to establish business in the Mainland for failure to satisfy the practice qualification in accordance with the Mainland requirements. They also considered the unbalanced ratio of job opportunities available to Hong Kong professionals in the Mainland vis-à-vis those offered to Mainland professionals in Hong Kong unfair. In this connection, Dr HO urged the Administration to continue to pursue with the Mainland authorities in addressing the concerns of the local professional sectors more effectively, under the liberalization measures of CEPA.

5. Noting Dr HO's views, DSCIT(CI)1 said that under CEPA, agreements had been reached between the Mainland and Hong Kong on mutual recognition of professional qualifications for 10 professional sectors. This had brought benefits to the professional sectors concerned, although the degree of benefits might vary among individual sectors. For example, the number of local professionals offering legal services to the Mainland by setting up firms on a wholly-owned or joint venture basis had been constantly on the rise. In addition, 20 local companies in the construction and related engineering services industries had obtained the Hong Kong Service Supplier Certificate, which was an entry requirement for local professionals to access the Mainland market. DSCIT(CI)1 admitted that there were still practical problems which needed to be solved with respect to further opening up the Mainland market for Hong Kong professionals. In this connection, he mentioned as an example that the Environment, Transport and Works Bureau had, on several occasions, led representatives from the relevant professional sectors in Hong Kong to meet the Mainland authorities to discuss and follow up on the relevant issues. He assured members that the Administration would explore solutions with the local professions and the Mainland authorities with a view to ensuring that Hong Kong professionals could make full use of the opportunities offered by CEPA.

6. Mr Howard YOUNG welcomed the liberalization measure to allow Hong Kong travel agents to set up wholly-owned or joint venture branches in Guangdong to organize group tours to Hong Kong and Macao for residents of Guangdong Province on a pilot basis. He suggested that the same practice should be extended to other major Mainland cities such as Shanghai and Beijing.

7. Mr Howard YOUNG further pointed out that the computer reservation system (CRS) with the connection to the web based booking engines was the most common system used for global reservations in the air transport service. Noting that Hong Kong air transport sales agencies were allowed to set up branches in the Mainland, he considered that the Administration should explore the possibility of assisting such agencies in setting up CRS for accessing information on flight service and airline reservations in the Mainland market. Mr YOUNG urged the Administration to take up the matter with the Mainland authorities. At the Chairman's request, DSCIT(CI)1 undertook to convey Mr Howard YOUNG's views to the authorities concerned for consideration and follow-up.

Economic impact

8. Mr WONG Kwok-hing and Miss CHAN Yuen-han urged the Administration to take enhanced measures to reap greater benefits from the CEPA arrangements, particularly in creating more employment and business opportunities for the local workforce and enterprises. In this connection, they commented that CEPA had so far failed to bring about significant benefits to Hong Kong in so far as the local labour force was concerned. Whilst raising no

objection in principle to facilitating local enterprises to gain access to the Mainland market and setting up operations there, Miss CHAN considered that the Administration should act in a more proactive manner in providing practical assistance to local small and medium enterprises (SMEs) in the manufacturing sector in the Mainland interested in relocating their production base to Hong Kong, thereby creating more employment opportunities for the local workers.

9. The Deputy Director-General of Trade and Industry (DDG/TI) responded that the Administration would take careful heed of members' views. He explained that the liberalization measures under CEPA were mutually beneficial to both the Mainland and Hong Kong. On trade in goods, products made in Hong Kong were given tariff free access to the Mainland market. The value of CEPA exports doubled in 2005, compared with that in 2004, leading to an increase in business activities conducive to the creation of more employment opportunities for the local workers. The liberalization measures under CEPA had also facilitated Mainland enterprises to invest in Hong Kong, thus leading to positive growth in the Hong Kong's economy. On promotion of inward investment, Invest Hong Kong (InvestHK) and the relevant Government departments and bodies were working jointly and actively in promoting CEPA to attract more Mainland and overseas enterprises to invest in Hong Kong. The ease with which such enterprises could set up business operation in Hong Kong had also been improved. To further promote trade and investment between Hong Kong and different regions of the Mainland, the Administration had planned to set up two Economic and Trade Offices, one in Shanghai and the other in Chengdu, to commence operation towards the latter part of 2006. All these measures, taken as a whole, had generated substantial benefits to the Hong Kong's economy, including the labour sector.

10. In response to Miss CHAN Yuen-han's enquiry about the information on inward investment from foreign enterprises, DSCIT(CI)1 advised that about 30% of the foreign investors attracted to Hong Kong and assisted by InvestHK had indicated that CEPA was a significant factor in their consideration of setting up business in Hong Kong. In fact, there was a marked increase during the last few years in the number of foreign corporations setting up regional headquarters and offices in Hong Kong. One of the reasons for this increase was the preferential access to the Mainland market brought about by CEPA. This had led to direct foreign investment flows to Hong Kong and created more job opportunities locally.

11. Mr CHIM Pui-chung queried how much Hong Kong could benefit from CEPA in view of the high rental and production costs in Hong Kong as compared with the Mainland and places elsewhere. In response, DDG/TI said that unlike Hong Kong products which enjoyed tariff-free entry to the Mainland under CEPA, the Mainland tariffs for certain foreign products remained very high and could exceed 10 to 20%. Despite the relatively high production costs in Hong Kong, the zero-tariff preferential treatment applicable to Hong Kong products, among other things, would give Hong Kong a competitive edge vis-à-vis its competitors.

12. Mr CHIM Pui-chung cautioned that as the Mainland further opened its market to other trading partners in compliance with its commitment made to the World Trade Organization (WTO), and coupled with the effect of CEPA, Hong Kong manufacturers were likely to face keener competition from foreign producers of international brand-name goods. In this connection, he urged the Administration to remind the local business sectors of the need to carefully assess the opportunities afforded by CEPA as well as the prospect of tapping the Mainland market from a longer term perspective.

13. DDG/TI took note of Mr CHIM's views and agreed that whilst the local enterprises could generally benefit from the CEPA measures, they should not lose sight of the need to give thorough consideration of all the factors which might affect their businesses before making any investment decisions, such as an in-depth study of the market situation and the relevant laws and regulations and administrative requirements in the Mainland.

14. Mr SIN Chung-kai commented that to some local sectors, the economic benefits derived from CEPA were limited as barriers of various sorts still existed. In his view, for the long-term good for the Hong Kong's economy, it was more important to provide an environment conducive to fairer and freer market competition than seeking concessions and preferential treatment from trading partners.

15. In response, DSCIT(CI)1 stressed that CEPA had promoted the liberalization of trade between Hong Kong and the Mainland, and benefited the economic and trade development of both places. However, CEPA was by no means the only factor which accounted for the economic development of Hong Kong. He assured members that the Administration would maintain close liaison with the Mainland with a view to improving the implementation of the liberalization measures under CEPA in the light of operational experience.

16. The Chairman remarked that although not all sectors and SMEs might be able to fully utilize the liberalization measures under CEPA, CEPA had provided a channel for local enterprises in tapping the vast business opportunities available in the Mainland market and widened the scope of business for Hong Kong goods and services providers.

17. Miss CHAN Yuen-han considered that the Administration should conduct an in-depth review, by phases, on the impact of CEPA on the economy of Hong Kong. The review should include, inter alia, information and analysis on the number and nature of overseas and Mainland enterprises setting up in Hong Kong due to CEPA and vice versa, the future trend of such development and whether the measures introduced under CEPA had created a genuine positive impact on Hong Kong's economic development in the long run. DSCIT(CI)1 responded that reviews on the impact of CEPA would be conducted as and when appropriate.

18. Referring to the consultation currently conducted by the Government on the introduction of goods and service tax (GST) in Hong Kong, Mr WONG Kwok-hing expressed concern that GST might stifle the pace of recovery in different economic sectors in Hong Kong, in particular the tourist industry, hence undermining the benefits brought about by CEPA and the Individual Visit Scheme. He considered that the Administration should conduct a comprehensive assessment on the likely impact of GST on the economy of Hong Kong, including the negative effect on consumer spending by both local citizens and tourists which might directly bear on the employment situation in Hong Kong.

19. DSCIT(CI)1 advised that the public consultation on GST, which had just started, would cover in-depth discussions on the pros and cons of introducing GST. Public views would be sought on a wide range of aspects including measures to mitigate the possible negative impact of GST on consumer spending, such as tax refund for goods purchased by tourists visiting Hong Kong. He assured members that there would be detailed public debate and discussions in the community and the Administration would fully listen to the views expressed before any decisions on the way forward for GST were to be taken.

20. Mr WONG Kwok-hing was concerned that tax refund alone would not be an effective measure sufficient to maintain tourists' incentive to spend in Hong Kong as the refund arrangements would cause inconvenience to the visitors. GST would also drive consumption spending of local residents to places elsewhere such as Shenzhen and Macao. In the end, Hong Kong's reputation as a shoppers' and gourmets' paradise would be impaired and the tourist industry would suffer. Mr WONG reiterated that the Administration should conduct a comprehensive study on the economic impact of GST and make known the findings for public debate. Miss CHAN Yuen-han echoed Mr WONGs' views. The Chairman remarked that the Administration should take Mr WONG's requests into account in taking forward its public consultation exercise on GST.

21. The Chairman further said that in so far as this Panel's discussion on CEPA was concerned, the Administration should provide a paper on how GST, if introduced, might impact on the liberalization measures under CEPA and the benefits brought about by such measures for members' consideration. In her view, the Administration should gauge carefully the opinions of the business and professional sectors on the matter. At the request of the Chairman, DSCIT(CI)1 agreed to provide such information in due course.

III Copyright register

LC Paper No. CB(1)1976/05-06(01) -- Information paper provided by the Administration

22. The Chairman drew members' attention to an information note on "Copyright Registration System in Selected Places" (English version) prepared by the Research and Library Services Division and tabled at the meeting (subsequently issued vide LC Paper No. CB(1)2006/05-06 on 19 July 2006).

23. At the invitation of the Chairman, the Principal Assistant Secretary for Commerce, Industry and Technology (Commerce and Industry) (PASCIT(CI)) briefed members on the result of the Administration's study on the suggestion to establish a copyright register in Hong Kong and the Administration's stance to put on hold its earlier proposal to prescribe overseas copyright registers by way of regulation made under section 121 of the Copyright Ordinance (CO). She elaborated on the findings detailed in the Administration's paper and informed members that having considered the experience of the United States (US) and Canada and feedbacks from local copyright owners, the Administration had now revised its position on a statutory copyright register as follows:

- (a) the sort of registration incentives available in the US could not be provided locally as Hong Kong's civil litigation system was different and it was unlikely that local copyright owners would welcome such arrangement;
- (b) a local copyright register was unlikely to be popular amongst copyright owners from different industries and the number of registrations would not be high; and
- (c) given the voluntary nature of any registration system and the lack of sufficient incentives for copyright owners to register their works and transactions in a timely manner, it was unlikely that a local register could capture a large number of copyright works and contain up-to-date information. Hence, the Administration doubted if such a register could perform an informative function effectively.

24. PASCIT(CI) further advised that in the light of the above observations, the Administration considered it not cost-effective to establish and maintain a copyright register in Hong Kong. Although the Administration had been encouraging copyright owners to discuss amongst themselves to bridge the divergent views on the proposal to prescribe overseas copyright registers, it was understood that differences in opinion still existed amongst different copyright owners. While overseas copyright owners from the business software, computer game and movie industries supported the proposal, the musical recording industry and the local movie industry objected to it because the copyright of films

and musical sound recordings might be owned by different parties in different parts of the world. The acceptance of a certificate issued by an overseas copyright register as prima-facie evidence to facilitate proof of the copyright subsistence and ownership could place an unfair burden on Hong Kong copyright owners to disprove it in case of a dispute over the copyright ownership of the work. There were also doubts over the capability of foreign copyright registers to maintain an accurate and updated record of a Hong Kong produced film. Given the strong views of such copyright owners, the Administration proposed to put on hold its earlier proposal to prescribe overseas copyright registers, but would pursue other administrative measures to alleviate copyright owners' burden in filing true copies of their copyright works in legal proceedings against copyright infringements. These included re-using as far as possible the same true copies of copyright works where there were different criminal proceedings involving the same copyright works which necessitated proof of copyright subsistence and ownership and seeking the defendant's agreement on the issue of copyright subsistence and ownership before trial.

25. Mr SIN Chung-kai suggested that the Administration should conduct a review, for example, once in every three to five years, to ascertain whether there was a renewed need to set up a copyright register in Hong Kong and prescribe overseas copyright registers by way of regulation.

26. PASCIT(CI) pointed out that about 10 000 offence cases were detected last year, of which about 1 000 cases were subject to prosecutions. Affidavits might be submitted pursuant to section 121 of CO in criminal proceedings if there was no agreement on the issue of copyright subsistence and ownership before trial. The Administration would continue to keep in view the operation of section 121 of CO having regard to enforcement experience, but a regular review about the need to establish a copyright register in Hong Kong might not be called for at this stage.

27. Summing up, the Chairman said that while she agreed that a regular review to re-examine the need to establish a copyright register in Hong Kong was not warranted, the Administration should review the operation of section 121 of the CO and the efficacy of the administrative measures, say in three years' time, and report any findings to the Panel. The Administration took note of the Chairman's suggestion.

Admin

IV Review of the effectiveness of the Professional Services Development Assistance Scheme

LC Paper No. CB(1)1775/05-06(01) -- Information on "Application Procedures of the Professional Services Development Assistance Scheme" provided by the Administration

LC Paper No. CB(1)1976/05-06(02) - Extract of minutes of meeting of the Panel on Commerce and Industry held on 17 May 2005

28. The Chairman recapitulated that the objective of the Professional Services Development Assistant Scheme (PSDAS) was to provide financial support for eligible professional services sectors to organize projects which aimed at enhancing their professional standards and external competitiveness. Since the commencement of PSDAS in February 2002, the Administration had reviewed the operation and effectiveness of the Scheme and reported the findings of the two reviews to the Panel on 18 July 2003 and 17 May 2005 respectively. The Administration further submitted a paper in June 2006 to report on some changes to the application procedures for PSDAS in response to the suggestions made by the Panel at its meeting on 17 May 2005 when the subject was discussed.

29. At the invitation of the Chairman, the Principal Assistant Secretary for Commerce, Industry and Technology (Commerce and Industry) 4 (PASCIT(CI)4) briefed members on the Administration's paper, which explained the proposed changes to the application procedures for PSDAS having taken on board the recommendation of the Panel to improve the Scheme in the following two areas -

- (a) the existing frequency of inviting applications should be increased to further facilitate application by professional bodies, and
- (b) the existing restriction on the number of applications made by an applicant in each round should be lifted as the restriction might create difficulty for tertiary institutions which comprised a number of research institutes in different faculties/departments.

30. PASCIT(CI)4 advised members that the Administration had consulted the Vetting Committee (VC) of PSDAS on the above suggestions. The VC had subsequently agreed to increase the frequency of inviting applications from three to four times a year on a pilot basis, and to lift the current restriction of no more than two applications by each applicant in each round of applications. The VC further decided to increase the total number of applications that each applicant could submit in 12 consecutive months from eight to 10, so as to provide more flexibility to the applicants. These proposed changes would take effect from 1 August 2006.

31. Mr SIN Chung-kai expressed support for the changes. Nevertheless, he considered that the Administration should monitor the application situation and assess the impact of the new application cycle on the submission patterns of applicants, taking into account the need to ensure that as many eligible professional organizations could benefit from the Scheme as possible, and that a right balance should be struck in relation to the types of organizations which

could receive the financial support under the Scheme. In this connection, Mr SIN requested the Administration to provide information on the number of applications received and the amount of funding granted (by nature of the applicant organizations). The Chairman supported Mr SIN's views and suggested that the Administration should also provide a comparison between the applications under the Scheme before and after the changes to the application procedures were introduced. She asked whether the Administration could provide the relevant information by end 2006.

Admin

32. PASCIT(CI)4 agreed to provide the information as requested. However, he pointed out that as the new application procedures would be implemented with effect from 1 August 2006, a meaningful comparison could be made only after sufficient information had been collated. He undertook to provide the relevant information for the Panel's consideration at an appropriate time after the new arrangements had been put in place.

V Progress report on Digital Entertainment Incubation and Training Centre

LC Paper No. CB(1)1976/05-06(03) -- Information paper provided by the Administration

33. At the invitation of the Chairman, the Assistant Commissioner for Innovation & Technology (Funding Schemes) and the Chief Executive Officer of Hong Kong Cyberport (CEO/HKC) briefed members on the operation of the Digital Entertainment Incubation-cum-Training Centre (the Centre) at the Cyberport. In brief, the mission of the Centre was to incubate companies in the digital entertainment and digital multimedia industries of Hong Kong with initial focus on game development. Since the establishment of the Centre on 9 December 2005, there had been two rounds of invitations for admission to the Incubation Programme (IP), under which technical and business-related training was provided to the incubatees. By end June 2006, 27 out of the total 30 admitted incubatee companies had settled in the Centre, with more than 130 persons being engaged in products and services development under the IP. The remaining three companies were in the process of moving into the Centre. The Centre was networked through a world-class telecommunications infrastructure with high-speed broadband connectivity to the rest of the world so as to build and promote entrepreneurship and competence for commercialization success in the digital entertainment industry of Hong Kong. On the training side, so far there had been seven training seminars/workshops organized, targeting SMEs in the digital entertainment industry (including non-incubatees), with the objective of sharing with them business insights and strategies on technology and business development. A total of some 880 participants had attended such training, workshops and symposiums. The Cyberport Management (CM) had also promoted and would further promote the international networking of the Centre with world-class overseas partners to strengthen collaboration on creative

training and business exchange for the incubatee companies. In addition, a series of promotion activities had been organized to help incubatee companies in reaching out to local and overseas markets. CM also aimed to foster collaboration between the tenants in the field of advertising and digital entertainment to further promote the business of incubatee companies, in particular on digital game under the IP.

Centre activities

34. Noting that some applications had been rejected in the two rounds of invitations for admission to the IP, Mr WONG Ting-kwong sought information on the selection criteria for incubatee companies and the reasons for rejecting those applications.

35. In response, CEO/HKC explained that a Vetting Committee (VC) comprising 13 members drawn from the academia and commercial sector had been formed to evaluate incubation applications and select the incubatees based on their professionalism and qualifications, creativity, market potential, as well as their contribution in the area of digital entertainment. Of the two rounds of invitations for admission to the IP, 30 out of the total 66 applications had been successful whilst the rest were not admitted because of their less competitive business profile.

36. In reply to the Chairman's enquiry about the timeframe of the support provided to the incubatee companies under the IP, CEO/HKC advised that the admitted incubatees were expected to take part in the IP for a period of up to two years and their performance would be reviewed by an Advisory Committee (AC) once every six months. The AC had the authority to cease funding provided to incubatee companies which failed to deliver the milestones and checkpoints set for them by the VC.

37. The Chairman considered that the Centre should make most effective use of its resources and work jointly with other local vocational and continuing education institutions in providing a wide variety training in the information technology field, including short workshops/seminars/attachment programmes for young local talents who were not able to benefit from the mainstream tertiary education. In her view, this could provide the course participants exposure to practical industry knowledge on digital entertainment and help develop young people who had an interest in pursuing a career in the relevant fields at an early stage.

38. CEO/HKC noted the Chairman's views. He said that in cooperation with other corporate partners including the Hong Kong Polytechnic University and the Hong Kong Institute of Vocational Education, the CM was offering relevant programmes and courses which were attuned to the needs of the youths in acquiring IT skills for career development. It was planned that on-the-job training would be provided for about 1 500 trainees participating in the IP. In

addition, other means would be explored to render assistance to unsuccessful applicants as pre-incubatees, with a view to nurturing promising enterprises and professional talents to start up companies to develop sustainable businesses in the digital entertainment industry.

39. On the Chairman's further enquiry as to whether seminars/workshops and other training activities organized by the Centre would be video taped and utilized again in subsequent training programmes, CEO/HKC responded that as copyright issues would likely be involved and a fee would probably be charged, authors' consent would have to be sought if video-taped materials were to be reproduced for teaching and training purposes. Nevertheless, he acknowledged the need for more optimal and cost-effective use of training materials and the Centre would continue to find ways to achieve such objective.

Financial position

40. In response to Mr WONG Ting-kwong's enquiry about the operating cost of the Centre, CEO/HKC informed members that as of May 2006, a total expenditure of \$5.723 million had been incurred, which was within the set budget, of which \$5.1 million was directly used in the IP. This included the fitting out of the 30 incubatee offices in the Centre, the provision of the necessary office equipment as well as purchase of special digital equipment, some of which could also be used by trainees in other Centres. With a partial contribution from the Cyberport, the fitting out cost for the whole Centre was about \$200 per square ft, which was a very competitive rate as compared with that of other Grade A office premises in Hong Kong. The remaining \$0.657 million was spent on manpower required to run the Centre. CEO/HKC added that private sponsorships had also been sought for the Centre. He assured members that CM would continue to operate the Centre in a fair, open and transparent manner.

41. Mr SIN Chung-kai recalled that the Finance Committee (FC) of the Legislative Council had approved in June 2005 the funding of \$30.77 million from the Innovation and Technology Fund (ITF) for the establishment and operation of the Centre for a period of 40 months. He envisaged that there might be difficulties for the FC to approve further direct funding from the ITF to finance the operation of the Centre, as the Centre was expected to generate income sufficient to finance its operation costs when it was able to achieve full occupancy rate. Mr SIN considered that if additional funding was required to provide continued support for the incubatee companies, other funding alternatives should be examined.

42. CEO/HKC said that it was expected that the Centre could ultimately self-finance its operation. Where considered necessary, requests might be made to the Board of Directors of the CM for subsidy to sustain the operation of the Centre. He pointed out that in another similar case, a funding allocation of \$15 million from the ITF had been provided for the establishment of the Digital Media Centre (DMC) for a period of three years up to end July 2006. Part of

the operation costs incurred in the operation of DMC after July 2006 might be financed by the Cyberport if necessary. CEO/HKC undertook to convey Mr SIN's views to the AC for its consideration. He also called upon the Government to continue to support the Cyberport project.

43. The Chairman thanked CEO/HKC and the Administration for attending the meeting to brief members on the operation of the Centre.

VI Any other business

44. There being no other business, the meeting ended at 4:20 pm.

Council Business Division 1
Legislative Council Secretariat
7 September 2006