

For discussion
on 19 April 2011

Legislative Council Panel on Commerce and Industry

Latest Developments of Industrial Estates

PURPOSE

This paper briefs Members on the latest developments of Industrial Estates (IEs) managed by the Hong Kong Science and Technology Parks Corporation (HKSTPC).

BACKGROUND

2. To address the land concerns of local manufacturing industry in the 1970s, the Government established the IE Programme with the following objectives –

- (a) underpinning wider economic development through broadening the industrial/manufacturing base and upgrading technology levels; and
- (b) providing land for manufacturing industries that could not be accommodated within flatted factories, or should be located away from urban areas, because of more horizontal space, high floor loading and greater headroom requirements and/or environmental considerations.

The Hong Kong Industrial Estates Corporation (HKIEC) was set up in 1976 as an independent statutory body to deliver the IE Programme. The first IE was developed in Tai Po (TP) in 1978; second IE in Yuen Long (YL) in 1980; and third IE in Tseung Kwan O (TKO) in 1994.

3. In view of the changing character of the manufacturing sector and the increasing contribution of service industry, the scope of activities permissible in IE was extended in 1998 to include industrial services sectors, such as broadcasting and telecommunications.

4. In 2001, HKIEC, the Hong Kong Industrial Technology Centre Corporation and the Provisional Hong Kong Science Park Company Limited were merged into a single body, i.e. HKSTPC, to create synergy. HKSTPC is an independent statutory body that provides a range of supporting services to the industry, from the nurturing of technology start-up companies through its incubation programmes, providing premises and services in the Hong Kong Science Park for research and development (R&D) activities, to offering land in IEs for production facilities. The Government is the sole shareholder of HKSTPC, which is governed by a Board of Directors appointed by the Government.

OPERATION OF IEs

5. As mentioned above, HKSTPC is administering three IEs in TP, YL and TKO. A map showing the locations is at **Annex A**. The three IEs offer a total of 217 hectares of land for long lease, which will expire in 2047. The land is granted based on land formation costs which are adjusted by inflation rates.

6. The basic admission criteria to IEs are as follows –

- (a) the project cannot be accommodated in ordinary multi-storey industrial or commercial buildings;
- (b) the operation is not classified as offensive trade under Government regulations (e.g. tanning of leather); and
- (c) the project is not engaging primarily in storage and warehousing.

7. In assessing the eligibility and merits of applications, HKSTPC also makes reference to the following factors –

- (a) new or improved products or services;
- (b) new or upgraded technology;
- (c) high added value based on the use of local material and manpower;
- (d) products or services for which there is strong demand from local industry;

- (e) substantial contribution to Hong Kong's exports;
- (f) significant investment particularly in new machinery and equipment; and
- (g) employment at a higher level of skill.

8. As at end of February 2011, HKSTPC had granted around 98% of greenfield sites in the three IEs. The IEs are home to over 160 local and international companies, including those from traditional manufacturing sector as well as technology and service sectors. A list of industries currently operating in the three IEs is at **Annex B**.

TRANSFORMATION OF INDUSTRIES IN IEs

9. Operation in IEs over the years does in a way demonstrate the transformation of industrial base in Hong Kong. In the early years since the opening of TPIE in 1978, manufacturing of machinery parts, metal products and packaging materials constituted the majority of the grants. YLIE then came on stream in 1980 providing the necessary infrastructure for construction materials manufacturing, heavy water users like waste paper recycling, bleaching and dyeing. In the late 1980s and early 1990s, technology advancement was observed in new projects of electronic parts manufacturing including printed circuits boards and semiconductors in the two IEs. Food and beverages production as well as printing and publishing also constituted a major sector during this period.

10. With the introduction of TKOIE in two stages between 1994 and 1996, greater opportunities were offered to those operators that had requirements for larger sites or requiring marine access. HKIEC also introduced the new sector of service industries in 1998 which resulted in the admission of some high technology operations in satellite monitoring and control, submarine cable operation and television broadcasting. Such requirements from the information telecommunication sector continued into the new century. With the grant of site for the first data centre in TKOIE in 2005, more data centre and telecommunication projects have been admitted lately. The average investment level of such projects was significantly higher than the historical average of admitted projects in IEs. Furthermore, increased awareness in environmental initiatives coupled with advancement in recycling

technologies had resulted in the admission of six recycling projects in the past few years.

CONSULTANCY STUDY ON REVITALISING AND REPOSITIONING OF IEs

11. With changes of the industry taking place in the last decade or so, it is necessary to review the situation of IEs taking into account various factors. HKSTPC hence commissioned a consultancy study on IEs which was completed in 2010.

12. The consultant considered that HKSTPC's IE Programme has performed well within its original mandate of providing land for special-purpose manufacturing and service industries. The consultant pointed out that the overall economic environment has changed significantly since the establishment of the first IE in the 1970s and this may affect the long term sustainability of IEs. In order to keep pace with development, the consultant has offered the following observations/recommendations –

(a) Improvement of utilisation

The economy has changed markedly since the 1970s. Hong Kong has transformed from being a major manufacturing location into a global hub for trade and tradable services. Some grantees have scaled down or ceased operation due to business changes, including moving the production line to the Mainland. Hence, the premises have left wholly/partly idle.

To ensure good use be made of valuable land resources and instill liveliness in IEs, HKSTPC needs to facilitate and encourage the assignment of under-utilised sites to other companies able to meet the prevailing admission criteria;

(b) Emphasis on industries with wider benefits to Hong Kong

While Hong Kong has a strong overall position, its competitiveness as a manufacturing location is less favourable. By comparison, other locations within the region, notably the Mainland, represent “better value”, largely due to lower labour and land costs. Nevertheless, Hong Kong may still have competitive strengths relative to other locations (e.g. international intellectual property

protection regime, good supply of R&D talents, etc.). These strengths may attract industries that would bring wider benefits to Hong Kong, in particular those involving high value-added, high productivity and high technology activities (e.g. biotechnology, environmental technology, information and data services, etc.); and

(c) Enhancement of hard and soft infrastructure

Apart from the above, HKSTPC can consider upgrading the hard (e.g. amenities) and soft (e.g. more proactive marketing strategy) infrastructure of IEs. The need for a fourth IE should also be explored.

In devising the way forward, the consultant stresses the importance of striking a good balance between costs and benefits.

IMPROVEMENT MEASURES IMPLEMENTED BY HKSTPC

13. Taking into account the consultant's recommendations and the latest market situation, HKSTPC has been implementing an action plan –

(a) Improvement of utilisation

(i) *Facilitating and encouraging assignments*

HKSTPC has been actively facilitating the upgrading of technology level and broadening of industrial base in IEs through the established admission procedures and exit arrangements in the lease. Grantees that are not fully utilising their IE sites are encouraged to consider new projects by their companies, surrender the sites or to look for new grantees by way of assignment which meet the prevailing admission criteria of IEs. It would be most desirable if the new businesses involve advanced technology, high investment and more technical personnel.

Since January 2007, HKSTPC has approved 17 assignment applications involving around 18 hectares of land. For instance, HKSTPC approved an application of assigning a site previously occupied by a printing company to a big genome institute to establish its sequencing facility in 2010. HKSTPC will continue such effort;

(ii) *Lease enforcement actions*

HKSTPC conducts site inspections on a regular basis and if a grantee is proved to be in breach of terms and conditions of the lease, HKSTPC may take actions, having regard to the lease conditions, including the charging of additional premium and instituting the re-entry process as an ultimate resort.

HKSTPC is stepping up its lease enforcement actions against grantees in breach of lease conditions, such as non-approved use of the site and non-fulfilment of investment in machinery; and

(b) Emphasis on industries with wider benefits to Hong Kong

HKSTPC continues to welcome applications involving advanced technology, high investment and more technical personnel for admission to IEs. In view of the diminishing of greenfield sites, HKSTPC has refined its application processing mechanism in that once a formal application was received for a particular site, HKSTPC would place a general call for applications on its website in addition to inviting all parties who have previously indicated interest in that site. This helps HKSTPC to identify applicants that contribute the highest value-added to IEs and Hong Kong. HKSTPC will continue to keep the situation under review.

LOOKING INTO THE FUTURE

14. As the number of greenfield sites in IEs decreases, it is necessary to consider the way forward (including whether or not to have a fourth IE) taking into account various factors –

- (a) whether the original considerations justifying the need for IEs (e.g. to accommodate projects that cannot be accommodated in ordinary multi-storey industrial or commercial buildings) are still valid today taking into regard developments in past years, e.g.
 - (i) the vast majority of the manufacturing industry is already in the Pearl River Delta area; and

- (ii) front-line labour is not easily available in Hong Kong, etc.;
- (b) whether there is sufficient demand in the market to justify the case given that land resources are extremely scarce and valuable in Hong Kong – in other words, the overall priorities of land use in Hong Kong to achieve the greatest benefit for the community;
- (c) even if there is demand for certain specific sectors (e.g. data centre operation), whether the solution lies in IEs or there are better alternatives (e.g. establishing specific parks such as EcoPark); and
- (d) even if the need of IEs can be justified, the future mode of operation (e.g. duration of lease and whether there should be subsidy of any form and magnitude) should be carefully considered to ensure the best use of valuable resources, etc.

15. Apart from policy considerations, practical issues such as availability of land will also need to be addressed. In this regard, sites near to urban area may be very difficult. Latest research shows that possible locations include the New Development Area in Ping Che/Ta Kwu Ling and the Lok Ma Chau Loop area, both of which are at early planning stage.

16. The Government, in conjunction with HKSTPC, will closely monitor the situation and come up with recommendations as necessary.

ADVICE SOUGHT

17. Members are invited to note the latest developments in respect of IEs.

Location of Industrial Estates



Pharmaceutical



Food processing



Metal processing

Food processing

Tseung Kwan O Industrial Estate



Submarine cable landing

Yuen Long Industrial Estate



Traditional Chinese Medicine

Tai Po Industrial Estate



Data centre



Petro-chemical



Aircraft engineering

Annex B

**Industries in Industrial Estates
(As at end of February 2011)**

Industry	TPIE		YLIE		TKOIE		Total*	
	No. of sites granted	Land area (ha)	No. of sites granted	Land area (ha)	No. of sites granted	Land area (ha)	No. of sites granted	Land area (ha)
Manufacturing								
(a) Biotechnology & Pharmaceutical	7	4.18	10	9.13	0	0	17 (10.2%)	13.31 (6.8%)
(b) Food & Beverages	19	14.98	6	13.20	4	4.85	29 (17.4%)	33.03 (16.8%)
(c) Machinery & Parts	7	4.76	3	2.32	2	2.00	12 (7.2%)	9.08 (4.6%)
(d) Metal Parts & Products	8	5.22	2	2.07	0	0	10 (6.0%)	7.29 (3.7%)
(e) Other Manufacturing (e.g. Building Materials, Chemical & Gases, Electronics Parts and Paper Packaging)	18	15.21	17	18.44	10	19.65	45 (26.9%)	53.30 (27.1%)
(f) Plastic Resins & Plastics Products	6	5.19	3	4.00	0	0	9 (5.4%)	9.19 (4.7%)
(g) Printing & Publishing	5	4.80	5	6.10	3	5.80	13 (7.8%)	16.70 (8.5%)
(h) Supporting Service	7	2.65	6	8.38	4	7.68	17 (10.2%)	18.71 (9.5%)
Services								
(a) Broadcasting	2	4.98	0	0	3	13.20	5 (3.0%)	18.18 (9.3%)
(b) Information & Telecommunication (e.g. Data Centre)	1	0.69	0	0	5	13.23	6 (3.6%)	13.92 (7.1%)
(c) Transmitter Installation	2	2.35	0	0	2	1.30	4 (2.4%)	3.65 (1.9%)
Grand Total#	82	65.01	52	63.64	33	67.71	167 (100%)	196.36 (100%)

* The percentages may not add up to 100.0% due to rounding.

Certain areas of IE are non-building area and seawall that are not for grant.