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Legislative Council

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Finance Committee of the Legislative Council

Minutes of the 13th meeting
held at the Conference Room 1 of the Legislative Council Complex
on Friday, 11 May 2012, at 3:30 pm

Members present:

Hon Emily LAU Wai-hing, JP (Chairman)
Prof Hon Patrick LAU Sau-shing, SBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Fred LI Wah-ming, SBS, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon LEUNG Yiu-chung
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, SBS, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, MH

Hon LEE Wing-tat
Dr Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon CHEUNG Hok-ming, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Cyd HO Sau-lan
Hon Starry LEE Wai-king, JP
Dr Hon LAM Tai-fai, BBS, JP
Hon CHAN Hak-kan
Hon CHAN Kin-por, JP
Dr Hon LEUNG Ka-lau
Hon CHEUNG Kwok-che
Hon WONG Sing-chi
Hon WONG Kwok-kin, BBS
Hon IP Wai-ming, MH
Hon IP Kwok-him, GBS, JP
Dr Hon PAN Pey-chyou
Dr Hon Samson TAM Wai-ho, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon Tanya CHAN
Hon Albert CHAN Wai-yip

Members absent:

Hon LEE Cheuk-yan
Dr Hon Margaret NG
Hon LAU Wong-fat, GBM, GBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon Paul CHAN Mo-po, MH, JP
Dr Hon Priscilla LEUNG Mei-fun, JP
Hon Mrs Regina IP LAU Suk-yea, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon WONG Yuk-man

Public officers attending:

Ms Julia LEUNG Fung-ye, JP	Acting Secretary for Financial Services and the Treasury
Mr Stanley YING, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Esther LEUNG, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)1
Ms Elsie YUEN	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr Benny WONG Yiu-kam, JP	Deputy Director of Environmental Protection (1)
Miss Amy YUEN Wai-Yin	Assistant Director of Environmental Protection (Water Policy)
Mr CHAN Chi-chiu, JP	Director of Drainage Services
Mr TAI Wai-man	Chief Engineer (Consultants Management), Drainage Services Department
Miss Janet WONG, JP	Commissioner for Innovation and Technology
Mr Johann WONG	Deputy Commissioner for Innovation and Technology
Mr Davey CHUNG	Assistant Commissioner for Innovation and Technology
Prof YUE On-ching	Science Advisor, Innovation and Technology Commission
Mr Haider BARMA, GBS, CBE, JP	Chief Executive Officer, Hong Kong Research Institute of Textiles and Apparel
Mr Simon K Y WONG	Chief Executive Officer, Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies
Prof NG Ka-ming	Chief Executive Officer, Nano and Advanced Materials Institute
Dr YANG Ying	Chief Executive Officer, Automotive Parts and Accessory Systems Research and Development Centre
Mr Andrew WONG Ho-yuen, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)

Mrs Alice CHEUNG CHIU Hoi-yue	Deputy Secretary for Commerce and Economic Development (Commerce and Industry) 3
Ms Carol YUEN Siu-wai, JP	Deputy Director-General of Trade and Industry (Commercial Relations, Controls and Support)

Clerk in attendance:

Mr Andy LAU	Assistant Secretary General 1
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Staff in attendance:

Ms Anita SIT	Chief Council Secretary (1)5
Mr Daniel SIN	Senior Council Secretary (1)7
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Christy YAU	Legislative Assistant (1)8

Item No. 1 - FCR(2012-13)20

RECOMMENDATIONS OF THE PUBLIC WORKS SUBCOMMITTEE MADE ON 18 APRIL 2012

The Chairman advised that the Committee's approval was sought for the items in FCR(2012-13)20 which were recommended by the Public Works Subcommittee (PWSC) held on 18 April 2012. PWSC had recommended that the item PWSC(2012-13)6 should be considered and voted on separately at the Finance Committee (FC) meeting.

2. The Chairman said that the Administration had provided a supplementary information note, which was tabled at the meeting, regarding the items PWSC(2012-13)1 and 2 on the Shatin to Central Link (SCL) railway and non-railway works. She reminded the Administration to provide adequate barrier-free access facilities and toilet facilities in all SCL stations in accordance with the latest standards.

3. The Chairman put the items in FCR(2012-13)20, except PWSC(2012-13)6, to vote. The Committee approved the items.

PWSC(2012-13)6

Head 704 - DRAINAGE

353DS Outlying Islands sewerage stage 2— upgrading of Mui Wo village sewerage phase 2 and Mui Wo sewage treatment works

4. The Chairman advised that the item sought to upgrade part of 353DS to Category A at an estimated cost of \$967.2 million in money-of-the-day prices for upgrading the existing Mui Wo sewage treatment works and implementing sewerage works in Mui Wo town centre, Wang Tong and Yue Kwong Chuen.

5. The Chairman said that members should be prudent in requesting separate voting on items that were recommended by PWSC or the Establishment Subcommittee for Finance Committee's (FC) approval, as separate arrangements would have to be made and that the Administration's representatives had to set aside time from their work schedules to attend the meeting to answer members' queries.

6. Prof Patrick LAU said that both he and Mr Albert CHAN had expressed concern about the project at the PWSC meeting. Shortly before the current meeting, the Administration had provided information which addressed his concern, and he had no further question on the project.

7. The Chairman said that it was possible for members to inform the Secretariat to withdraw the request for separate voting before a FC meeting if they found that their queries had been addressed by the information provided by the Administration. In response to the Chairman, the Clerk advised that in case a member wished to withdraw his request for separate voting on an item, it would be preferable for the member to notify the Legislative Council Secretariat at least two days before the relevant FC meeting, so as to allow sufficient time to notify members of the updated agenda and to inform the Administration accordingly. Deputy Secretary for Financial Services and the Treasury (Treasury)1 said that the Administration would welcome notification of a member's withdrawal of a request for separate voting at a reasonable time before the relevant FC meeting, as and when the Chairman had given consent to revise the agenda accordingly.

8. Prof Patrick LAU said that he did not have the opportunity to discuss with Mr Albert CHAN whether he would agree to withdraw his request for separate voting before this meeting. He explained that he had queried about the cost-effectiveness of the sewage treatment works if village houses were not connected to the public sewers. He was now satisfied with the Administration's established arrangements of briefing village house owners and setting out relevant details in letters issued to them.

9. Director of Drainage Services (DDS) said that according to the established arrangements, the Administration would closely liaise with village house owners during works implementation and would provide tapping points to terminal manholes which would be constructed by village house owners. This would facilitate future connection between their premises and the public sewer system without incurring too much time and cost. In response to the Chairman, Deputy Director for Environmental Protection (DDEP) explained that when the public village sewers were ready for connection, the Administration would explain to village representatives and house owners the legal and technical requirements and details of making the connection. Advisory letters would be issued to village house owners concerned, which requested them to complete the sewer connection works within a certain deadline. In case of uncooperative house owners who showed no intention to carry out the connection works after the specified period, the Environmental Protection Department would consider serving statutory notices to them under the Water Pollution Control (Sewerage) Regulation (Cap. 358AL) (WPC(S)R). So far, about 88% of the village houses covered by public sewers had completed the connection works, and the Administration hoped that the connection rate would increase further through closer liaison with the village house owners.

10. Mr LEUNG Yiu-chung said that some village house owners had experienced technical difficulties when trying to make connections to the tapping points. He asked what practical assistance the Administration would offer to these owners, and whether financial support would be available for those who could not afford the connection costs.

11. DDEP replied that the Government would not insist on a connection between a village house and the public sewer if it was found technically not feasible due to, for example, the tapping point being located at a higher level than the sewer outlet from a village house, or where a village house was surrounded by private land and segregated from the public sewer system. However, such circumstances were rare and tapping points were, in most cases, located within one metre from the lot boundary of the concerned village houses, or from the terminal manholes to be constructed by the village house owners.

12. Ir Dr Raymond HO supplemented that the question regarding connecting a village house to the public sewer was discussed at the PWSC meeting. The representative from the Drainage Services Department (DSD) had explained that a list of approved contractors could be made available for village house owners if they experienced difficulties in finding suitable works agents to carry out the connection works.

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13. Mr WONG Yung-kan declared that he resided in a village house where public sewerage works were being carried out in his neighbourhood. He noticed that DSD staff had properly posted notices at conspicuous locations advising village house owners of the contact details if they required further assistance.

14. As regards financial assistance, DDEP advised that loans were available for eligible village house owners to carry out the connection works. However, it would not be appropriate for the Government to subsidize the connection works with public funds as the part of the sewer connection between a terminal manhole and a village house fell mostly within private land, and the owner should be responsible for the connection cost involved.

15. Mr LEUNG Yiu-chung said that many village house owners were not aware of the avenues for seeking financial assistance. He asked if the Administration had publicized the relevant loan schemes and whether relevant publicity materials would be distributed among the village house owners concerned. DDEP responded that the Administration would inform village house owners the avenues for seeking financial assistance during their regular liaison. The Administration would strengthen publicity efforts as necessary, and pamphlets could be provided as suggested.

16. Mr WONG Yung-kan said that some village houses were far away from the public sewer system. He asked whether those owners could continue to use on-site sewage treatment facilities such as septic tanks. DDEP reiterated that proper connection of village houses to the public sewerage network would have long-term environmental and sanitary benefits as well as benefit to the property value as compared to the use of septic tanks. Once public sewers had been laid under the village sewerage programme, village house owners could be required under WPC(S)R to convey waste water from their premises to the public sewers. The Administration would strengthen this message in future publicity efforts.

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

Item No. 2 - FCR(2012-13)21

INNOVATION AND TECHNOLOGY FUND

Head 111 – INNOVATION AND TECHNOLOGY

Subhead 104 Nano and Advanced Materials Institute

Subhead 106 Automotive Parts and Accessory Systems Research and Development Centre

Subhead 107 Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies

18. The Chairman advised that the item sought the Committee's approval for an increase in the commitment under Head 111 – Innovation and Technology (a) by \$195.4 million for Subhead 104 – Nano and Advanced Materials Institute (NAMI); (b) by \$60.6 million for Subhead 106 – Automotive Parts and Accessory Systems Research and Development Centre; and (c) by \$19.3 million for Subhead 107 – Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM).

19. Mr WONG Ting-kwong, Chairman of the Panel on Commerce and Industry (CI Panel), reported that the Panel was briefed on the outcome and recommendations arising from the review of the Research and Development (R&D) Centres on 20 December 2011. The Panel was also consulted on the funding proposals on 17 April 2012. Apart from one Panel member, Panel members supported the funding application in principle. Some members considered that the industry contribution level should not be taken as the sole performance target for the R&D Centres, and the R&D Centres should be more proactive in commercialization and technology transfer. Members also called on the Administration to take the lead to adopt more local R&D results for use in government departments.

20. Mr WONG Ting-kwong commended the performance of the three R&D Centres, and said that their projects had many practical applications. Insufficient resource support on R&D had been a subject of criticism for many years, and given the encouraging performance of these R&D Centres, the CI Panel generally supported the funding application.

21. The Chairman welcomed the Administration's practice of recording a Panel member's dissenting view in the discussion paper, and she suggested that the grounds of members' objection should be set out in future submissions.

Need for more resource support on R&D

22. Mr Vincent FANG said that Members belonging to the Liberal Party supported the funding proposals. Notwithstanding that the R&D Centres were still unable to become self-financing, he said that scientific research often required substantial investment with a rather long payback period; some projects might not even be profitable. Investment in technological research was necessary for any country or city to improve people's standard of living and to sustain economic growth. The pattern of Hong Kong's development had, for long, slanted heavily towards finance and real estate. Mr FANG suggested

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that the Government should allocate more resources to R&D development and step up efforts in promoting commercialization of R&D results and technology transfer.

23. Commissioner for Innovation and Technology (CIT) concurred with Mr Vincent FANG's comments, and said that the Administration had completed a full review on the operation and overall performance of the R&D Centres for the first five-year period. The operations of the R&D Centres had progressively improved, and the Administration considered it appropriate to provide continued support to sustain further operation of the R&D Centres. She also agreed that the trial of local R&D results in government departments should be promoted and efforts on promoting commercialization of R&D projects should also be enhanced. The Administration would examine the organization and staffing structure of the R&D Centres in their second five-year period of operation to identify how commercialization initiatives could be further improved.

24. In response to the Chairman, CIT said that the R&D Centres had not reached the stage of becoming self-financing, which meant that the proceeds from R&D products could not meet all of their operating expenses. She explained that it was a complicated process for a product to progress from the laboratory bench to the market. A product developed by the R&D Centres and put on trial by the Government might not reach the production line eventually, even if the Government was satisfied with it. The success of an R&D product depended on whether there were manufacturers willing to invest in the production, or whether the market demand was high enough to justify commercialization. There were very few examples of R&D centres around the world that could operate on a fully self-financing basis. CIT added that industry contribution was an important factor in assessing an R&D Centre's performance, although it was not the only factor. The fact that the level of industry contribution of NAMI had achieved 40% indicated the operation of the Centre was becoming mature.

25. Mr Jeffrey LAM welcomed the Government's decision to continue supporting the new generation of industrialists through R&D, although he considered that the Government's input was still small compared with neighbouring countries such as Korea and Singapore. He suggested that the Government's expenditure on R&D should further increase.

R&D support for the logistics sector

26. Ms Miriam LAU said that she supported the funding proposals, but considered that the Administration had not provided adequate support to the

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logistics sector in adopting new electronic technologies. She noted that the Administration had undertaken on a number of occasions to liaise closely with the sector so that relevant researches could be conducted and improvement could be introduced to facilitate the sector to adopt latest technologies to improve efficiency and quality of service. She hoped that a high value-added logistics sector could be built up resulting in lower cost services for users. Ms LAU expected that these goals could be realized with the approval of the funding proposals.

27. CIT assured members that the Administration was committed to working closely with the logistics sector in the direction suggested by Ms Miriam LAU. She further said that over the past few months, she had met with the relevant trade associations and had co-ordinated efforts among the relevant government departments, such as the Customs and Excise Department (C&ED).

28. Chief Executive Officer (CEO), LSCM said that LSCM was fully committed to supporting the logistics sector, especially in times when the sector was facing decline in air freight volume amid downturns in the export trade. LSCM had assisted in the implementation of C&ED's Intermodal Transshipment Facilitation Scheme (ITFS) which aimed to simplify customs inspection procedures for air-land as well as sea-land intermodal transshipment cargoes. Other approaches were being explored. CEO, LSCM added that LSCM had been seeking inputs from industry-support bodies, trade associations and enterprises, including the Hong Kong Logistics Development Council, the Hong Kong Association of Freight Forwarding and Logistics, etc., to develop useful R&D projects, and to foster the adoption of management enabling technologies by the logistics and supply chain industries.

29. Ms Miriam LAU commented that LSCM should devote more efforts in promoting new technologies such as radio frequency identification in the logistics sector, and that these technologies should be affordable and enable enterprises to reduce manpower. Products should be designed from the perspectives of smaller companies and should be widely applicable and practical. She cited an example where companies still needed to deploy staff to escort the merchandise despite having set up a cargo tracking system. Small companies would not be able to afford such technology.

R&D on solar energy and biotechnology

30. Dr PAN Pey-chyou enquired whether Hong Kong had the right conditions to develop solar energy or other environmentally-friendly and

sustainable energy technologies, and whether the Administration had considered cultivating biotechnology development in Hong Kong.

31. CIT said that NAMI was putting considerable efforts in developing solar energy products. Joint projects had been implemented in collaboration with corporations such as DuPont. The Administration would not rule out the possibility of setting up another R&D Centre in the long term to support the development of a sector or industry that was strong and had good potential. The Administration considered the current range of R&D Centres adequate. In respect of biotechnology, it would continue to be a focused area of development in the third phase of the Hong Kong Science and Technology Parks (HKSTP). A dedicated team had been set up in the Innovation and Technology Commission with expertise in biotechnology. The current arrangement was considered satisfactory and the Administration had no immediate plan to set up a new R&D Centre on biotechnology.

32. CEO, NAMI said that NAMI was taking active steps in developing solar energy related products in line with the global trend as well as the energy technology development in the Mainland. Apart from a large-scale project on thin-film photovoltaic technology in collaboration with DuPont, NAMI had installed a thin-film silicon solar cell unit on the rooftop of the Tseung Kwan O Hospital as a supplementary source of power. NAMI had also commenced a large-scale project on CIGS solar cell, which could achieve higher energy efficiency, and was developing a new area of technology involving using organic materials in producing solar cells, taking advantage of Hong Kong's edge in organic chemical technologies and the cost savings that could be achieved with this technology in the manufacturing process. Other collaboration efforts on photovoltaic technology were underway with research organizations in the Mainland where a significant increase in the use of solar energy is expected.

33. Mr Albert CHAN welcomed the development of organic solar cell technology, and agreed that there was huge market potential for such products. He suggested that to help rebuild a manufacturing base in Hong Kong, the Administration should impose conditions on the R&D funding to require the products developed by the R&D Centres to be manufactured in Hong Kong for a given period before the production could be transferred elsewhere.

Benefits of R&D efforts to the community

34. Mr WONG Sing-chi queried the justifications for providing funding support for the R&D Centres if they were unable to generate income and could not bring social benefits. He commented that it was not reasonable to support

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the R&D Centres' operations just to promote the interests of the business sector, or allow free use by the sector of the R&D products which meant little to the ordinary public. Mr WONG suggested that the Administration should publicize the R&D products or research results of the R&D Centres to arouse the community's interest in locally developed innovation and technologies and to encourage young people to pursue a career in innovative technologies. He noticed some successful examples overseas where young people were able to attract considerable investment to their innovative concepts before the final products were manufactured. By contrast, the Administration had spent hundreds of millions in supporting R&D Centres for some seven to eight years and yet they still had to rely on public funds to sustain.

35. CIT responded that the path of technology R&D was often long, winding and difficult. When R&D products began to be commercialized, the companies adopting the technologies would naturally be amongst the first to benefit from the improved business opportunities. In time, as the products were gradually being widely used by consumers, the benefits of the technologies brought by the R&D efforts would be felt. Examples were the E-lock system developed by LCSM for C&ED had benefitted the whole community through improved operational efficiency in the logistics sector, and fabrics for burn patients and children with skin allergies, as well as high-performance sportswear developed through collaboration between the Hong Kong Research Institute of Textiles and Apparel (HKRITA) and various public sector organizations.

36. CIT agreed that young people should be encouraged to pursue a career in innovative technology R&D, and that was also an important aspect of the work of the Innovative Technology Commission (ITC). To this end, provisions were included in each project funded under the Innovative Technology Fund (ITF) to enable a project leader to employ two interns. A Scholarship Award, with \$3 million donation from HSBC, was set up to sponsor outstanding local university students to study in world class universities overseas. CIT also mentioned that research funds were available to support R&D initiatives of small and medium enterprises (SMEs), and HKSTP provided legal counselling, advice on running a business, and matching service with 'angel investors' through its Incubation Programme. These efforts helped foster an enabling environment for young entrepreneurs in Hong Kong.

Need of supporting the manufacturing sector

37. While supporting the proposal, Mr Albert CHAN said that technology R&D should meet the needs of the local manufacturing sector and Hong Kong's overall economy. The contribution of Hong Kong's

manufacturing sector to gross domestic product (GDP) had been shrinking, and had dropped to 1.8% in 2010, as compared with 20% in Singapore. Many industries had gradually disappeared over the past 20 years, and, as a result, job varieties of local workers had narrowed and nowadays, most jobs were non-skilled or semi-skilled jobs. This posed a problem for Hong Kong. Mr CHAN commented that with support from R&D efforts, Hong Kong should develop and manufacture its own brands of high-end fashion, watch, jewellery, food or pharmaceutical products. He believed Hong Kong had the potential, but the Government was not putting sufficient efforts in promoting development in this direction.

38. CIT agreed that technology R&D should develop in tandem with industrial development. The Hong Kong Science and Technology Parks Corporation (HKSTPC) played an important role in providing infrastructural support to local industries, through the three Industrial Estates under its management. Although Hong Kong's manufacturing sector was small, the Administration agreed that Hong Kong should focus on high-end and high-value-added industries. Accordingly, as announced in this year's Budget, HKSTPC would be invited to explore the feasibility of expanding the Yuen Long Industrial Estate. Details on the use of this extension were being worked out, and the Administration was examining high-value-added areas such as clean production, pharmaceuticals, and high-tech environmental technology. The Administration would also explore with Industrial Estate tenants who were winding down their business, to convert and transfer their premises in the Industrial Estates to new takers.

39. Dr LAM Tai-fat said that the traditional modes of manufacturing were gradually phasing out. If the manufacturing sector were to have a future, it was imperative that it should move towards high value-added, high-technology, high-quality production processes, and R&D support was a necessity. He therefore supported the Administration's efforts in promoting R&D. Dr LAM commented that it took a long time and hard efforts for R&D on a product to achieve results, and the success of R&D efforts could not be judged simply on its financial return or cost involved, but on its long term impacts. He hoped Hong Kong's manufacturing sector could revive through technology R&D. To achieve the desired effect, the Administration must ensure early commercialization of R&D products, so that the sector would become more competitive and be able to win more overseas orders. It would be useless if R&D products were confined only to laboratory prototypes, however many awards they had won.

40. Expressing concurrence with Dr LAM Tai-fai's view, CIT advised that at present, R&D proposals for ITF funding were evaluated according to

their technology content as well as the competency of the research team. The Administration had also added two further criteria to the evaluation process: a project proponent would be required to demonstrate how the project deliverables could be commercialized or applied in the public sector; the proponent should also explain how the product could address the needs of the community or the Government. CIT envisaged that these refinements to the funding system would enable the objective of ITF to be more effectively achieved.

41. Mr Albert CHAN said that he did not intend to vote against this item, but the Administration must convince the Committee that the funding proposals would enable Hong Kong to sustain a certain level of industrial production. Mr CHAN asked, subject to the Committee's approving the funding application, whether the Administration would set specific indicators or goals to increase the contribution of the manufacturing sector to the economy by, say 50%, or set employment targets. He opined that the R&D Centres should contribute to transforming the manufacturing sector towards the direction of producing high-value added, high quality and high-technology products so as to revive Hong Kong's industrial development.

42. CIT responded that any targets set should be realistic and achievable. Members' suggestions would be taken into account in considering Hong Kong's long-term industrial development policy. The Administration's plan of expanding the Industrial Estate in Yuen Long would support Hong Kong's industrial development as a whole. CIT added that the Administration would seek the views of the relevant Legislative Council Panel on the identification of high-value added, high quality and high-technology industries in due course.

43. Mr LEUNG Kwok-hung said that the operation of the Tai Po Industrial Estate demonstrated that it served little more than providing low cost facilities that helped offset part of the losses of failed enterprises. He said that Hong Kong must rely on the initiative of the business sector, with the collaboration of local academics, if it were to become a manufacturing base of high-value-added, high-technology and high-quality products. He commented that subsidizing R&D using public funds was not justified because the private manufacturing sector would then have no incentive to invest on their own R&D to enhance competitiveness.

Performance of HKRITA

44. Dr LAM Tai-fai expressed concern about the performance of HKRITA as the effectiveness of its R&D efforts was comparatively less significant as compared with other sectors. The level of industry contribution

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had been around 12%, which was consistently below the target of 15%. He suggested that HKRITA should examine the underlying reasons involved, and should review its promotion, management, organization and commercialization aspects. Otherwise, if the level of industry contribution persisted below the 15% target, the Administration might consider terminating its sponsorship or adjusting its approach. He asked if the Administration had plans to improve the industry contribution level, and if the information was not available at this stage, he requested that the Administration should report the matter to an appropriate Legislative Council Panel in due course.

45. CIT explained that the cumulative industry contribution achieved for the first five-year period up to 31 March 2011 was 12.4%. The situation had improved as the level of industry contribution had increased to more than 20% in 2011-12. HKRITA was required to achieve an average level of 18% by the end of March 2013. Chief Executive Officer, HKRITA said that the textile and apparel industry had a long history, and it was not easy to develop any ground-breaking technology. Nevertheless, the level of industry contribution reached 23% in 2011-12 and he was confident that it would reach 20% in the coming year. He attributed the slow initial performance to HKRITA's focusing on platform projects. However, as these projects had proved successful, more companies had been seeking technology licences from HKRITA and had approached the institute to carry out collaborative projects. Product commercialization had been successful so far. Following the submission of the present discussion paper, HKRITA had granted two or three more licences for the use of their technologies, and the total licensing income had reached \$8 million, rather than \$5.3 million as indicated in paragraph 15 of the discussion paper.

Evaluation of R&D efforts

46. Mr Jeffrey LAM said that the Administration should evaluate R&D projects by their possible impacts rather than by profit potential. He gathered from a Government's report that many of the R&D projects supported by the Government had brought direct and indirect benefits to Hong Kong in terms of employment and tax revenue. He asked if the Administration would provide more information on these results.

47. CIT said that the R&D Centres had taken some time to set up their operation and recruit staff and research personnel during the first two of the five-year funding period. The pace of research and product commercialization picked up progressively toward the second half of the funding period. CIT added that HKRITA had been the most outstanding among the R&D Centres in commercialization. NAMI was making good progress in solar energy

development while the other R&D Centres were also beginning to produce results. The Administration would review every year what further initiatives should be introduced, and in 2011, the Administration had focused on how procedures should be streamlined to allow Government departments to adopt more R&D results. In 2012, the Administration would foster closer mutual co-operation among the Government, the manufacturing sector, and academics.

Difficulties in promoting R&D in Hong Kong

48. The Chairman said that there were queries on why the Administration was sluggish in promoting R&D vis-à-vis other countries despite support from Members. She asked what difficulties the Administration had encountered.

49. CIT explained that the difficulties Hong Kong encountered were structural. There were data which suggested that R&D establishments around the world were usually located in proximity to intense industrial activities. Unlike many other countries, scarcity of land in Hong Kong had constrained the scale of industrial production and related R&D efforts. Secondly, Hong Kong did not have a national defence industry, which was a driving force for spawning new technologies for civilian applications in many countries. Thirdly, for many years, Hong Kong had relied on local university resources in conducting R&D, but it appeared that many academic staff still preferred basic research to applied technology research. As a result, it would be more desirable to have more academic teams to take up new applied R&D projects. While the ultimate success in commercialization of an R&D project could not be guaranteed, ITC still had to consider carefully the effectiveness of project deliverables/outcome when granting funding as public money was involved.

50. Mr Jeffrey LAM said that there were also comments that research personnel in Hong Kong were over-cautious and conservative due to the restraints of the R&D system. He asked what the problems were, which put off local talents from serving in the R&D field, and how the Administration would speed up the pace of R&D and attract more talents to the field.

51. CIT explained that the World Trade Organization rules on government procurement were an example of constraints that the Administration had to address when encouraging the application of products developed by R&D Centres in Government departments. In the end, successful commercialization would then create a market and generate business to sustain R&D efforts. CIT remarked that it was more difficult to attract young talents to work in the R&D field, as local graduates had wide career choices; companies such as banks, were able to offer better remunerations to attract graduates of various disciplines, including engineering. The student

award schemes were launched with an aim to instil a sense of mission among students to pursue a career in R&D.

52. Mr Abraham SHEK commented that the discussion at the Committee should focus on the details of the funding proposals and should avoid digressing to policy issues.

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

Item No. 3 - FCR(2012-13)22

HEAD 181 – TRADE AND INDUSTRY DEPARTMENT

Subhead 700 General non-recurrent

New item "Dedicated Fund on Branding, Upgrading and Domestic Sales"

54. The Chairman advised that the item sought the Committee's approval for a new commitment of \$1 billion to set up a dedicated fund to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. She said that the CI Panel had been consulted on the proposal on 20 March 2012 and 17 April 2012.

55. Mr WONG Ting-kwong, Chairman of the CI Panel, reported that the Administration had briefed Panel members on the proposal to set up a time-limited dedicated fund of \$1 billion to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland (the BUD Fund). Members generally supported the proposal, and had discussed the scope and funding principles, implementation and the financial implications of the BUD Fund. At the request of Panel members, the Administration had provided supplementary information on the effectiveness and possible economic benefits as well as job opportunities to be brought about by the BUD Fund to the overall economy of Hong Kong. Panel members considered that the Administration should simplify the application procedures to facilitate the application for the BUD Fund by SMEs, provide non-financial support to enhance their competitiveness, and consider raising the cumulative funding ceiling of \$500,000 per enterprise. Members also requested the Administration to compile statistics and gather relevant information to facilitate the evaluation of the effectiveness and economic benefits to be brought about by the BUD Fund to the overall economy of Hong Kong.

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56. Dr LAM Tai-fai expressed support for the funding proposal. He said that the proposed BUD Fund was in the right policy direction. Hong Kong's export trade suffered decline amid the European economic downturn and the relatively weak US economy. He anticipated that the business environment would continue to be difficult. On the other hand, the Mainland market remained robust and the Central Government had announced its target to maintain a 7.5% GDP growth in the coming year. Hong Kong's continued development had been incorporated as part of the National 12th Five-Year Plan. Hong Kong enterprises should leverage on these opportunities and develop their brands, upgrade and restructure their operations and focus on domestic sales businesses in the Mainland. With these, not only would Hong Kong's competitiveness be enhanced, but its export trade would also benefit.

57. Dr LAM Tai-fai expressed concern about a potential hurdle that might affect the effectiveness of the BUD Fund. He explained that Hong Kong's enterprises in the Mainland must restructure into import processing operations to sustain business. However, many enterprises would suffer in the process as they were unable to claim the depreciation allowances in respect of their machinery or plants used in import processing operations in the Mainland. Such tax burden had deterred many Hong Kong enterprises from upgrading and restructuring their businesses in the Mainland. Dr LAM said that relevant bureaux and departments should consider adjusting the tax policy; otherwise the \$500,000 ceiling of financial assistance under the BUD Fund would not be able to offset their expenditure on tax payment. He further pointed out mastering accurate market information was crucial for a Hong Kong enterprise to operate successfully in the Mainland. Apart from providing the BUD Fund, the Administration should also provide Hong Kong enterprises with Mainland market information. Besides, Hong Kong's economic and trade offices (ETOs) in the Mainland should render more support to Hong Kong enterprises, such as assisting them in going through the complex and cumbersome procedures in registering their companies or brands in the Mainland.

58. Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PS(CIT)) agreed that the BUD Fund would be complemented by other measures to help Hong Kong enterprises explore and develop the Mainland market. In this connection, the Trade and Industry Department (TID), Hong Kong Trade Development Council (HKTDC), Hong Kong's ETOs in the Mainland had been collaborating in the gathering and dissemination of diverse market information to Hong Kong enterprises enabling them to understand the business environment and local customer needs in the Mainland, in particular in second and third-tier cities. Besides, activities including information sessions, seminars and experience-sharing sessions had been held in this regard. As far as the BUD Fund was concerned, apart from

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providing funding for individual enterprises, the Fund would also provide funding support to non-profit-distributing organisations such as trade and industrial organisations, professional bodies or research institutes, to undertake projects to assist Hong Kong enterprises in general or in specific sectors in exploring and developing markets in primary, secondary or third-tier cities of the Mainland.

59. Mr Albert CHAN commented that the BUD Fund should facilitate Hong Kong enterprises to develop their brands and foster the growth of the Hong Kong's manufacturing sector. He noted that the majority of Hong Kong brand products were manufactured in the Mainland; service companies such as advertising companies had also moved some of their operations to the Mainland. He suggested that public funds should be used to help Hong Kong enterprises and promote local manufacturing activities. He asked if the Administration would categorize Hong Kong's enterprises into different tiers according to the proportion of their operations being based in Hong Kong, and that preference for providing funding support would be given to those enterprises that manufactured their products in Hong Kong.

60. PS(CIT) said that the Administration shared members' concerns about the cost-effectiveness of the funding proposal in terms of the actual benefits brought to the Hong Kong economy. Similar issues were raised when the proposal was discussed at the CI Panel meetings. He explained that enterprises were required to have substantive business operations in Hong Kong to qualify for support under the BUD Fund. Furthermore, applicants would also be required to provide relevant information to facilitate the Administration to assess what tangible benefits the BUD Fund would bring to Hong Kong as a whole. However, it might not be appropriate to make it a criterion for funding support under the BUD Fund that applicants had to base their manufacturing process in Hong Kong. He explained that the BUD Fund was not only targeted at the manufacturing sector, but was also open to enterprises of the service sectors that were registered and had substantive business operations in Hong Kong.

61. Mr Vincent FANG expressed support for the funding proposal. Drawing from his professional background in brand management, Mr FANG said that the BUD Fund would unlikely to be effective in helping Hong Kong enterprises if the application criteria were too restrictive or if the Fund was only confined to enterprises that manufactured their products in Hong Kong. Given the high rental cost in Hong Kong, SMEs were unlikely to survive unless they moved their manufacturing processes to the Mainland. The BUD Fund would provide an opportunity for SMEs to enter the Mainland market, and if they were successful, they would likely employ more staff in Hong Kong.

62. Mr Vincent FANG further said that Mainland customers favoured products such as proprietary Chinese medicine that were manufactured in Hong Kong. The BUD Fund could assist these local Chinese medicine manufacturers in developing their brands and tapping the Mainland domestic market. An expansion of their businesses in Hong Kong as a result would be conducive to the creation of more employment opportunities for local workers. Mr FANG commented that not every Hong Kong enterprise could succeed in starting a business in the Mainland. The Administration should try to assist Hong Kong enterprises, including some small-sized design companies, in exploring new markets in second-tier cities such as Harbin, Shenyang, Wuhan or even third-tier cities such as Shijiazhuang where the chance of success in opening new markets might be higher. First-tier cities such as Beijing or Shanghai should be avoided as they were too competitive.

63. PS(CIT) said that the Administration would take into consideration the project proposals and the business plans of applicants for the BUD Fund. As Hong Kong had competitive edge in many business sectors, enterprises that had successfully obtained funding support under the BUD Fund to explore and develop the Mainland market would likely engage the services of relevant sectors in Hong Kong (e.g. design, marketing, etc) to implement the approved projects. Therefore the BUD Fund was expected to benefit different sectors of the Hong Kong economy and help create new job opportunities in Hong Kong. PS(CIT) agreed that Hong Kong's SMEs would have better chance of success in second or third-tier cities. In this connection, apart from providing support to Hong Kong enterprises through the BUD Fund, the Administration had been collaborating with trade and industrial associations, HKTDC, etc., in launching promotion campaigns for products of Hong Kong brands in cities such as Xian, Chengdu, Changchun and Dalian.

64. Mr Jeffrey LAM said that he had been involved in Mainland domestic sales business since 1972 and found that such operations were not easy as companies received little support from the Government. The Mainland market had been expanding, and Hong Kong's brands were more appealing to Mainland consumers who had confidence in Hong Kong products. Hong Kong should leverage on the business opportunities available, and it was important that the Administration should provide the appropriate assistance to Hong Kong enterprises. Mr LAM commented that the BUD Fund would help Hong Kong enterprises, including those engaged in research and development, explore and develop the Mainland. It would also attract manufacturers to set up new production operations in Hong Kong and encourage Hong Kong manufacturers to relocate their operations back to Hong Kong. Mr LAM said that the trade had recommended that a \$2 billion fund should be set up as

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against the \$1 billion BUD Fund being proposed. He suggested that the Administration should inject more resources in this area and raise the cumulative funding ceiling of \$500,000 per enterprise. He also commented that the eligibility criteria for the BUD Fund should not be too stringent, and applications should be processed swiftly. Otherwise, given the usually short product cycle, a new product might lose much of its appeal in the market by the time the application was approved. He asked how the Administration would ensure that applications under the BUD Fund would be processed in an expeditious manner so as to render timely and appropriate assistance to Hong Kong enterprises.

65. PS(CIT) advised that the Administration had consulted various trade and industrial organizations in drawing up the implementation details of the BUD Fund. Having taken into account the trade's views, the Administration had raised the funding ceiling per enterprise from \$300,000 as initially proposed to \$500,000. During the consultation, the trade had also reflected the need to streamline the application and vetting procedures. The Administration would take due account of the views and strike a balance between simplifying the application and vetting procedures and the need for prudent use of public money. He added that the Hong Kong Productivity Council (HKPC), which would be engaged to assist in the implementation of the enterprise part of the BUD Fund, would provide relevant information and appropriate assistance to applicants in the application process. The Administration would also step up its publicity efforts.

66. Mr Jeffrey LAM commented that some Hong Kong's brands were more appealing to Mainland consumers who had confidence in Hong Kong products. Assisting Hong Kong enterprises to promote products in the Mainland, even including the R&D results produced by the Government's R&D Centres, could attract manufacturers to set up production operations in Hong Kong, or encourage Hong Kong's manufacturers to return. He asked how the Administration would expedite the pace of helping local enterprises and would not give the sector an impression that it was impeding progress.

67. PS(CIT) responded that the Administration was aware that Hong Kong-made products, such as Chinese medicine and food products, were appealing to Mainland consumers. It was expected that the BUD Fund would help Hong Kong enterprises further develop and promote their brands so as to facilitate their business development in the Mainland market.

68. Dr Philip WONG expressed support for the funding proposal. He suggested that the Administration could help Hong Kong enterprises a great deal by stepping up assistance for companies in developing and promoting their

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brands in the Mainland. Dr WONG commented that it was important to consider the life duration of a brand in the market. Over the past few decades, many successful brands had vanished within just a few years. In approving funding support under the BUD Fund, he asked if the Administration would examine how long the brand might last in a market.

69. PS(CIT) responded that brand management was a specialized subject, and the Administration did not have much expertise in the area. Hence, experienced and knowledgeable practitioners and organizations in the relevant areas would be involved in the vetting process of applications received under the BUD Fund. For example, for the enterprise part of the Fund, HKPC would be engaged to undertake initial vetting of all the applications received, whereas an Inter-departmental Committee (IDC) comprising members from relevant government departments, including Create Hong Kong, ITC, TID, Information Services Department and Environmental Protection Department would further vet the applications and provide their recommendations. All applications together with IDC's recommendations would then be considered by a Programme Management Committee (PMC) with membership drawn from the trade, SME associations, and those with expertise or experience in brand development, upgrading and restructuring of operations and promotion of domestic sales in the Mainland.

70. Dr LAM Tai-fai said that manufacturing was only one aspect of industrial development. To sustain industrial development, Hong Kong must ride on the comparative advantage of Hong Kong, so that Hong Kong could focus on operations such as design, sales and distribution, while manufacturing could be carried out in the Mainland. Hong Kong must also leverage on the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to develop and promote Hong Kong's brands in the Mainland. Dr LAM commented that with the high land cost in Hong Kong, it was not realistic to sustain manufacturing activities of traditional industries such as textiles or toys. It might be possible, however, to maintain manufacturing operations for high value-added and high-technology products in Hong Kong. He also agreed with some other members' views that Hong Kong enterprises should consider exploring new markets in second or third-tier cities according to their capital and other resources.

71. Dr LAM Tai-fai declared he was the Legislative Council Representative of the Chinese Manufacturers' Association of Hong Kong (CMA). He noted that the BUD Fund was open to applications from non-profit-distributing organizations, and that the Administration would disburse a total of \$60 million to HKPC to cover the bulk of the expenses incurred for implementing the enterprise part of the BUD Fund. Dr LAM

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commented that CMA had the expertise and experience in brand development, and had set up a Hong Kong Brand Development Council to promote this area of work. It had recently organized an exhibition in Wuhan with favourable acclaim. CMA had a wide membership network, and the Administration could reach out to more Hong Kong enterprises through CMA, and advise them to make use of the BUD Fund in exploring new markets in the Mainland. He suggested that the Administration should collaborate with and provide funds for CMA to implement the BUD Fund and a monitoring mechanism could be set up to ensure proper use of public funds by CMA in such a partnership.

72. PS(CIT) clarified that HKPC would act as the secretariat to PMC, and a partner to implement the enterprise part of the BUD Fund. The \$60 million funding was provided for HKPC to draw up application guidelines, provide advisory services to interested applicants, undertake initial vetting of applications as well as co-ordinate the further vetting of project applications by IDC and PMC. HKPC was not engaged to directly undertake projects in branding, upgrading and restructuring and domestic sales with the BUD funding. In fact, the Administration welcomed all non-profit-distributing organizations, including trade and industrial associations, to apply for funding under the organization part of the BUD Fund to undertake projects which could assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland. The maximum amount of funding support for each approved project would be \$5 million, and there was no restriction on the number of projects an organisation might undertake with BUD funding. The Administration had been in contact with the major trade and industrial associations and understood that some were actively considering submission of project applications under the BUD Fund to assist Hong Kong enterprises.

73. There being no other questions from members, the Chairman put the item to vote. The Committee approved the funding proposal.

74. The Chairman said that the meeting would be adjourned, and discussion of the remaining items on the agenda would resume in the second meeting commencing at 5:35 pm.

75. The meeting was adjourned at 5:30 pm.