

Legislative Council Panel on Commerce and Industry

**2014 Policy Address
Policy Initiatives of
Commerce, Industry and Tourism Branch and
Innovation and Technology Commission,
Commerce and Economic Development Bureau**

Our Vision

To encourage industries to expand and thrive and to provide better employment opportunities, we need to diversify our economy and achieve sustainable growth. Hong Kong is one of the freest economies in the world. While respecting the functions of a market economy, the Government should be appropriately proactive, and take a more active role to facilitate the long term economic development of Hong Kong. Serving as an economic driver, innovation and technology can also upgrade our quality of life and enhance the efficiency of our community. The Government attaches great importance to fostering the innovation and technology industries. We have given software and hardware support to enterprises and start-ups, provided financial assistance for universities and research institutions, and helped in the commercialisation of research and development results achieved by the industries. Nevertheless, we still need to create an atmosphere that is conducive to the development of innovation and technology, and encourage investment in this area. It is also necessary to enhance co-operation among the Government, industry, academia and research sectors.

Part I : Commerce, Industry and Tourism Branch

New Initiatives

Economic and Trade Relations with Overseas Countries

Commence negotiation of a free trade agreement with the Association of Southeast Asian Nations and continue to participate in the Trade in Services Agreement negotiation for securing more favourable access to the relevant markets for Hong Kong businesses

2. Hong Kong and the Association of Southeast Asian Nations (ASEAN) agreed to pursue a bilateral free trade agreement (FTA) in April 2013 to strengthen our trade and economic partnership. Formal negotiation is expected to commence early this year. ASEAN is Hong Kong's second largest trading partner in goods and fourth largest trading partner in services. There is also tremendous potential for our traders to expand business in this fast-growing region. The FTA will enhance trade and investment flows between Hong Kong and ASEAN, generate new opportunities for our businesses, and boost economic growth in the longer term.

3. In June 2013, Hong Kong and some World Trade Organization (WTO) Members¹ (including eight of our top ten services trading partners) launched the negotiation on the Trade in Services Agreement (TISA) with a view to concluding a high-ambition and comprehensive agreement with broad participation that could be multilateralised in the future. Hong Kong is participating actively in the negotiation to take forward the liberalisation of trade in services.

Strengthening Hong Kong's Ties with Overseas Countries

4. Hong Kong is an externally oriented economy. Under the trend of globalization, there is a need to maintain an extensive global network and develop new trade links. With the gradual shift of the focus of global economic development, we have to seize new opportunities and create new business opportunities for our trade and industries. We will consider increasing the number of overseas Economic and Trade Offices in the Asian region; strengthen our trade ties with the emerging markets and step up the promotion of Hong Kong through the Trade and Industry Department (TID), the Hong Kong Trade Development Council (HKTDC) and local consultancy services so as to enhance Hong Kong's international status.

¹ As of November 2013, the 23 WTO Members participating in the TISA negotiation involve Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, the European Union, HKC, Iceland, Israel, Japan, Korea, Liechtenstein, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Switzerland, Turkey and the United States.

On-going initiatives

Economic Development Commission

Supporting the work of the Economic Development Commission to explore and identify growth sectors or clusters of sectors which present opportunities for Hong Kong's further economic growth. The Commission will recommend possible policy and other support for these industries

5. In his 2013 Policy Address, the Chief Executive announced that he would establish the Economic Development Commission (EDC) to explore, from a high-level, cross-departmental and cross-sectoral perspective, ways to make use of Hong Kong's existing advantages and the opportunities offered by our country. The EDC would focus on the overall strategy and policy to broaden our economic base and enhance our long-term development, identify industries which would present opportunities for Hong Kong's further economic growth, and recommend possible policy and other support for these industries.

6. Established on 17 January 2013, the EDC and its four working groups, namely, the Working Group on Transportation; the Working Group on Convention and Exhibition Industries and Tourism; the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries; and the Working Group on Professional Services have come into full operation. The EDC has formulated the overall work direction and discussed a number of important issues, including the demand and supply of manpower resources, and the land use demand and supply in Hong Kong. The working groups have drawn up their respective work plans and initial possible directions or recommendations, and are conducting detailed studies to ascertain the feasibility and implementation of the initial directions or recommendations.

7. We will continue to support the work of the EDC and its working groups. We look forward to their early formal submission of specific recommendations for the Government's consideration and implementation as appropriate.

Consider appropriate measures to meet the future demand for convention and exhibition facilities in order to compete more effectively with other economies in the region

8. The convention and exhibition industries are important to the economic development of Hong Kong. The Government adopted the recommendation of the Working Group on Convention and Exhibition Industries and Tourism under the EDC and would launch a consultancy study in early 2014 to assess the demand for convention and exhibition facilities in the coming 15 years, taking into account situation in Hong Kong and the global and regional developments of the convention and exhibition industries. The Government will consider appropriate measures according to the future development need in order to compete more effectively with other economies in the region. In this connection, the Town Planning Board has agreed to rezone a site at the future Exhibition Station of the Shatin to Central Link in Wan Chai North to preserve the flexibility to construct convention facilities on top of the Station upon its completion in around 2020. Moreover, we will continue to use the HKCEC and AWE effectively, and enhance the cooperation of these two venues.

Economic and Trade Relations with the Mainland and Regional Co-operation

“Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA)

Seeking to further expand CEPA with a view to securing for our businesses better access to the Mainland market

9. The Government strived to further open up the Mainland market for Hong Kong services sectors by broadening and deepening the scope of liberalisation, so as to implement the target promulgated by the Central People’s Government (CPG) earlier on to achieve basically, through CEPA, liberalisation of trade in services of the two places before the end of the 12th Five-Year Plan period. The Government maintained close liaison with the Mainland authorities on the matter. In fact, from the signing of CEPA Supplement VIII in 2011 to the signing of CEPA Supplement X in August last year, both sides signed a new Supplement

each year and are making steady progress towards the goal of basically achieving liberalisation of trade in services. Preparatory work is being done for the formulation of the 13th Five-Year Plan. We intend to propose to the CPG for the Mainland to more comprehensively liberalise trade in services for Hong Kong in the next Five-Year Plan period and to consult the Hong Kong trade in this respect.

Working with Mainland authorities through CEPA Joint Working Group to assist our businesses in using CEPA to tap the Mainland market

10. Since the introduction of CEPA, the Mainland and Hong Kong have been maintaining close liaison through established mechanisms at central, provincial and municipal levels on CEPA implementation. The Chief Executive announced in his 2013 Policy Address that an additional Joint Working Group would be established to enhance the mechanism for the implementation of CEPA. The Joint Working Group provides targeted assistance in sectors which have encountered relatively more entry barriers, and helps to resolve CEPA implementation problems encountered in individual provinces and municipalities. The Group held meetings in Guangzhou and Shanghai in June and December 2013 respectively. Both sides engaged in concrete discussions to resolve policy and regulatory problems encountered by the trade of Hong Kong in CEPA implementation. Both sides reached consensus to continue promoting the effective implementation of CEPA and facilitating Hong Kong enterprises in gaining access to the Mainland market.

Supporting Hong Kong enterprises in the Mainland

Working closely with Hong Kong enterprises in the Mainland, and supporting them in developing brands, upgrading and restructuring operations, and exploring the domestic sales market through the \$1 billion Dedicated Fund on Branding, Upgrading and Domestic Sales

11. To capitalise on the opportunities arising from the National 12th Five-Year Plan, the Government introduced in June 2012 a \$1 billion Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund) to assist Hong Kong enterprises from all sectors in furthering their development in the Mainland through developing brands, upgrading and

restructuring their operations and promoting domestic sales in the Mainland. The BUD Fund comprises the “Enterprise Support Programme” and the “Organisation Support Programme”, which provide funding support to eligible enterprises and non-profit-distributing organisations (e.g. trade and industrial organisations, professional bodies or research institutes) respectively.

12. Since the establishment of the BUD Fund till the end of December 2013, 160 applications from enterprises have been approved with a total funding amount of about \$68 million. Another 48 applications have been approved with conditions. On the other hand, 37 applications from organisations have been approved, involving a total funding amount of around \$123 million. In general, the BUD Fund has been operating smoothly and the response of the trade has been overwhelming. We will continue to improve the operation and implementation details of the BUD Fund, and carry out promotional and publicity activities proactively with a view to enhancing the awareness of the BUD Fund amongst enterprises and organisations.

13. Moreover, we will continue to maintain a close dialogue with the trade and liaise closely with the relevant Mainland authorities at all levels to reflect the trade’s views and concerns. The TID and our offices in the Mainland would continue to regularly disseminate information to Hong Kong enterprises through circulars and newsletters and organise activities such as symposiums and seminars to keep them abreast of various new policies and regulations and the latest business environment in the Mainland. The HKTDC and Hong Kong Productivity Council would also continue to provide Hong Kong enterprises with support services on technological upgrading, management enhancement, branding and market development, etc., as well as information on the Mainland market.

14. In order to help Hong Kong enterprises to gain a better understanding of the latest developments and investment opportunities in different Mainland cities and to foster exchanges and cooperation with the local business sectors, the Chief Executive led trade delegations to visit Chongqing and Guangxi in September and November 2013 respectively, and would lead another trade delegation to Fujian in January 2014. On the other hand, the Guangdong Economic and Trade Office organised a Hong Kong Week event in Xiamen of Fujian Province from late April to

early May 2013, whilst the HKTDC has been actively expanding its network of “Design Gallery” in various Mainland cities during the past year. Our offices in the Mainland and the HKTDC would continue work on these fronts in the coming year, in order to assist Hong Kong enterprises in building up their brand image and brand awareness in the Mainland and developing the domestic sales market.

Continuing to support Hong Kong enterprises (in particular small and medium enterprises (SMEs)) through various measures

15. Aside from supporting Hong Kong enterprises in the Mainland, we also continue to support Hong Kong enterprises (in particular SMEs) through various measures. These measures include funding schemes administered by the TID, namely, the SME Loan Guarantee Scheme, SME Export Marketing Fund and SME Development Fund which assist SMEs in securing finance, exploring export market opportunities and enhancing their overall competitiveness. As regards the special concessionary measures under the SME Financing Guarantee Scheme (SFGS) administered by the Hong Kong Mortgage Corporation Limited (HKMC), the application period will close by the end of February 2014². As at the end of December 2013, over 8 000 applications have been approved under the special concessionary measures, involving a total loan guarantee amount of about \$27.1 billion. The Government will continue to review the support measures for SMEs from time to time to ensure that timely and adequate support can be provided to the trade.

Regional co-operation

Strengthening exchanges and co-operation between Hong Kong and Taiwan in trade, tourism, etc through the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council and the Hong Kong Economic, Trade and Cultural Office in Taiwan

² The HKMC has launched the time-limited special concessionary measures under the SFGS on 31 May 2012 to provide 80% loan guarantee at a concessionary fee rate. The Government provides a total loan guarantee commitment of \$100 billion. The application period for the special concessionary measures was originally nine months until end of February 2013, which was subsequently extended to end February 2014.

16. Over the years, Hong Kong and Taiwan have established close trade relations. For merchandise trade, in 2012, Hong Kong and Taiwan were each other's fourth largest trading partner, with total bilateral merchandise trade amounting to over HK\$325.7 billion. For trade in services, Taiwan was Hong Kong's fifth largest trading partner in 2011, with the total value of trade in services reaching HK\$55.1 billion. The Government is committed to strengthening economic and trade co-operation between the two places in areas such as trade, investment and tourism.

17. With the close economic and trade relations and complementary economic structures, there is huge potential for further development of economic and trade ties between Hong Kong and Taiwan. A comprehensive and institutionalised economic and trade co-operation arrangement similar to CEPA or "Cross-Straits Economic Co-operation Framework Agreement" (ECFA) between Hong Kong and Taiwan could provide certainty in policies and strengthen confidence of investors. The business sectors of both sides have indicated support for Hong Kong and Taiwan to actively explore the establishment of a comprehensive framework for economic and trade co-operation. We have expressed our wish to the Taiwan side for a number of times to forge with them a co-operation arrangement similar to CEPA or ECFA. We would continue to actively follow-up with the Taiwan side through the platform of the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC) and Taiwan-Hong Kong Economic and Cultural Co-operation Council (THEC) with a view to starting substantive discussions as early as possible.

Encouraging investment in Hong Kong

Encouraging more enterprises from overseas, the Mainland, Taiwan as well as emerging markets like the Association of Southeast Asian Nations to invest in Hong Kong and strengthening aftercare services to encourage those enterprises already established in Hong Kong to upgrade their presence. We are also helping our enterprises tap the business opportunities in these markets

18. Over the years, Invest Hong Kong (InvestHK) has strived to encourage and attract companies from the Mainland, Taiwan and key emerging markets to set up or expand their business operations in Hong Kong. In 2013, InvestHK has completed 337 overseas, Mainland and Taiwan investment projects. To attract more Mainland enterprises to establish a presence in Hong Kong, InvestHK conducted a series of investment promotion seminars in high growth Mainland cities in 2013, including Wuhan, Zhengzhou, Wuxi, Xiamen, Guangzhou, Guiyang, Nanning, Haikou, Changsha, Dalian, Changchun and Harbin. In the coming year, the Mainland market will remain a priority of our investment promotion work. InvestHK will continue to step up efforts in promoting Hong Kong as an ideal platform for Mainland companies to go global and expand their business internationally. It will organise investment promotion seminars, targeting the fast-growing cities in the inland as well as coastal provinces.

19. With the support of the Investment Promotion Unit in the Hong Kong Economic, Trade and Cultural Office in Taipei, InvestHK has stepped up its promotion efforts in Taiwan. It has strengthened partnership with the Taiwan business community through organising seminars, company visits and promotional events in different cities in Taiwan throughout the year. Looking ahead, InvestHK will further strengthen collaboration with Taiwan representative bodies and business associations in Hong Kong to enhance co-operation on investment promotion. It will also reach out to a wider spectrum of Taiwanese enterprises, including those already with a presence in Hong Kong, so as to identify more potential Taiwan investors to set up or expand their businesses in Hong Kong.

20. In 2013, InvestHK has continued its investment promotion work in the key emerging markets including Southeast Asia, India and South America. For example, a roundtable luncheon was held in Brunei in January 2013 to reach out to companies from the ASEAN. Seminars were also held in Brazil, Uruguay and Argentina in August 2013 to promote the business advantages of Hong Kong. InvestHK will continue to accord priority to attracting more companies from emerging markets like the ASEAN to set up in Hong Kong in 2014.

21. To ensure overseas and Mainland companies already established in Hong Kong have all the support they need to expand their business operations, InvestHK has continued to proactively approach these companies to provide them with ongoing aftercare support services. In the coming year, InvestHK will continue to strengthen these services to help multinational companies in Hong Kong expand their business operations and encourage them to locate their regional or global headquarters in Hong Kong.

Economic and Trade Relations with Overseas Countries

Seeking to enter into trade arrangements and investment agreements with more overseas economies to secure for our businesses better access to those markets

22. The multilateral trading system embodied in the WTO is the cornerstone of Hong Kong's external trade policy. Hong Kong participates actively in the WTO to secure maximum market access for Hong Kong's exports of goods and services to international markets.

23. Hong Kong participated in the Ninth WTO Ministerial Conference held in Bali, Indonesia in December 2013. Ministers approved the "Bali Package" which comprises a new Agreement on Trade Facilitation (TFA) and nine decisions on agriculture and development issues. The TFA is the first multilateral agreement concluded by the WTO since its establishment in 1995. Hong Kong will continue to work closely with other WTO Members towards the early successful completion of the remaining issues under the Doha Development Agenda.

24. To maintain Hong Kong's international profile, boost trade and investment, generate job opportunities, and enhance long-term economic development, we have been actively pursuing FTAs with our trading partners. Hitherto, Hong Kong has signed three FTAs with overseas economies, covering Hong Kong's strategic markets in different parts of the world. We will continue to reach out to other overseas economies and expand our FTA network.

25. On the other hand, Hong Kong has been negotiating and concluding Investment Promotion and Protection Agreements (IPPA) with other economies to enhance investment flows and boost our economy.

So far, Hong Kong has signed 17 IPPAs with overseas economies, namely the Netherlands, Australia, Denmark, Sweden, Switzerland, New Zealand, Italy, France, Germany, Belgo-Luxembourg Economic Union, Austria, Japan, Korea, the United Kingdom, Thailand, Finland, and Kuwait.

26. In December 2013, Hong Kong concluded IPPA negotiations with Bahrain and Myanmar. After completion of the necessary internal procedures by parties concerned, Hong Kong will sign the two IPPAs with Bahrain and Myanmar.

27. In 2014, Hong Kong will continue IPPA negotiations with the Russian Federation and start to negotiate an investment agreement with Chile as part of the FTA with Chile. We will also continue our efforts to forge more IPPAs with other economies.

International Trading and Shipping Centre

Pursuing measures to facilitate the movement of goods across the boundary, including the “Authorized Economic Operator Programme” which allows cargoes handled by qualified companies to enjoy expedited customs clearance in Hong Kong and by our trading partners

28. Customs and Excise Department (C&ED) has been promoting the Hong Kong Authorized Economic Operator (AEO) Programme since its launch in April 2012. Local companies which adopt appropriate security measures may be accredited as AEOs and thus enjoy customs facilitation such as prioritised clearance and reduced examination of their goods. The industry’s response is positive. C&ED has so far accredited 15 companies, including multi-national companies and local SMEs in the import/export, manufacturing or freight forwarding industries. C&ED will continue the promotion and conduct out-reaching visits to encourage applications.

29. In October and November 2013, C&ED entered into mutual recognition arrangements (MRAs) with the customs administrations of the Mainland and India respectively. Under MRAs, local AEOs can enjoy customs facilitation in customs territories outside Hong Kong. C&ED expects to conclude MRAs with the Korean and Singaporean customs administrations this year and is continuing with extensive efforts to

engage other major trading partners in MRA discussions.

Enhancing Wine Trading

Supporting wine trading and distribution businesses in Hong Kong, riding on growing demand across Asia. In particular, we are assessing the manpower needs of the industry for sustaining its growth and development

30. Hong Kong continues to play the role as the regional wine trading and distribution hub and has remained the world's largest wine auction centre for four consecutive years. In the first 11 months of 2013, wine imports amounted to over \$7.2 billion. This represented approximately three times that of the same period in 2008 when wine duties were abolished.

31. We are helping the industry grasp the opportunities arising through a series of supportive measures, which include the facilitation scheme for wine re-exports into the Mainland from Hong Kong, the wine-related schemes run by the Hong Kong Quality Assurance Agency and the BUD Fund that focuses on exploiting the Mainland market. We are working with the wine industry to conduct the first-ever manpower survey, the results of which should be useful reference for the industry and training providers alike.

32. In 2014 we will continue our efforts and support major wine trade and investment promotional events, including the world-renowned wine exhibition Vinexpo Asia-Pacific 2014 (hosted in town for the sixth time in a row), the sixth Wine and Dine Festival and the HKTDC's seventh Hong Kong International Wine & Spirits Fair.

Intellectual Property (IP)

Working with stakeholders on the overall strategies and support measures to develop and promote Hong Kong as a premier intellectual property trading hub in the region

33. We set up the Working Group on IP Trading (the Working Group) in March 2013 to strategise the promotion of Hong Kong as a premier IP trading hub in the region and devise specific policies and measures in

support. In November 2013, the Working Group promulgated a strategic framework (the Framework) for forging ahead the development of IP trading. The Framework covers four strategic areas, namely enhancing the IP protection regime; supporting IP creation and exploitation; fostering IP intermediary services and manpower capacity; and pursuing promotion, education and external collaboration efforts. The Working Group is working to explore specific policies and other support measures under each strategic area for promoting Hong Kong as a regional IP trading hub.

Working to develop and implement an “Original Grant” Patent System that would be commensurate with our efforts to develop Hong Kong into a regional innovation and technology hub

34. Upon accepting the strategic recommendations made by the Advisory Committee on Review of the Patent System in Hong Kong (the Advisory Committee), the Government announced in February 2013 the future positioning of Hong Kong’s patent system, including setting up an “original grant” patent (OGP) system whilst retaining the current re-registration system for grant of standard patents. It bears strategic significance in facilitating the development of Hong Kong into a regional innovation and technology hub, as well as a premier IP trading hub.

35. Subject to the progress of implementation work and preparation of new legislation, we tentatively aim at launching the OGP system in 2016-17 at the earliest. The Intellectual Property Department has started preparatory work including reaching a cooperation arrangement with the State Intellectual Property Office (SIPO) in December 2013 to secure its support in providing technical assistance in carrying out substantive examination for our future OGP system and manpower training and development assistance in building up our indigenous examination capability.

Engaging stakeholders to explore how our copyright regime should evolve to take care of parody as appropriate and to strengthen copyright protection in the digital environment

36. To keep pace with technological advancement and economic development, we need to update our copyright regime from time to time. We conducted public consultation last year to explore how parody should be taken care of as appropriate having full regard to present day

circumstances. We are engaging various stakeholders to address pertinent issues raised and craft legislative proposals. Subject to progress, we plan to take a view on the way forward and also to conclude efforts since 2006 to strengthen copyright protection in the digital environment.

Part II : Innovation and Technology Commission

New Initiative

Strengthen our support for commercialisation of research and development (R&D) outcome and private sector R&D

37. The Government is committed to providing a conducive environment and adequate financial support and promoting collaboration among the Government, industry, academia and research sectors to promote R&D as well as transferring the R&D results to the industry. Established in 1999, the Innovation and Technology Fund (ITF) is an important public resource in providing financial support for applied R&D and upgrading the technology level of the industry. Since 1999, the ITF has supported more than 3 600 projects involving a total funding of about \$7.9 billion. These applied R&D projects help upgrade the technology level of the HKSAR and provides an important platform to nurture our technology talents. In the past few years, improvements have been made to the individual funding schemes under the ITF.

38. With the consensus of stakeholders, we believe that we should adopt a more aggressive and proactive approach in supporting private sector R&D and commercialisation. In this 15th year of the ITF, we have commenced in mid June 2013 a comprehensive review of its operation and effectiveness and explore areas for improvements, for example, by enhancing support for R&D undertaken by private enterprises through refining the funding scope and mechanism so that more R&D results could be transferred to the industry or turned into products. We will consult the C&I Panel of the Legislative Council (LegCo) on the findings of the review and specific improvement measures.

On-going Initiatives

Innovation and Technology Industries

Promoting R&D

Promoting applied R&D and technology transfer to the industry, in particular small and medium sized enterprises, through the R&D Centres and financial support from the Innovation and Technology Fund and R&D Cash Rebate Scheme

ITF

39. As mentioned in paragraph 38 above, we are conducting a comprehensive review of the ITF and would identify further improvements to enhance our support for applied R&D and technology transfer. To further facilitate commercialisation of R&D results, the ITC has promulgated in August 2013 a new guide on intellectual property arrangements (covering ownership, licensing and benefit-sharing, etc) for R&D projects funded by the ITF. The new guide sets out the latest policy and aims to provide a clear, transparent, fair and consistent framework for intellectual property arrangements, and allows greater flexibility for the R&D Centres and other local research institutions to determine the best terms of commercialisation and benefit-sharing arrangements having regard to their individual circumstances.

R&D Centres

40. The five R&D Centres, as an integral part of the ITF operation, have undertaken more than 580 research projects with an ITF funding of some \$2.9 billion over the past seven years. In May 2012, the Finance Committee (FC) of LegCo approved additional funding to extend the operation of two R&D Centres, namely the Automotive and Accessory Systems R&D Centre (APAS) and the Nano and Advanced Materials Institute (NAMI) up to March 2017, and that of another two R&D Centres, namely the Hong Kong Research Institute of Textiles and Apparel (HKRITA) and the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM) up to March 2015. The operation of the Hong Kong R&D Centre for Information and Communications Technologies under ASTRI will continue to be funded by a triennial government subvention (while projects will be funded via

the ITF).

41. We briefed Panel Members on the annual performance of the R&D Centres at the C&I Panel meeting on 18 June 2013 and reported that the R&D Centres had gradually become more mature after some seven years of operation. They had become more prominent focal points for technology collaboration among various stakeholders and made steady progress in terms of commercialisation and promoting the trial of R&D results in the public sector. As regards HKRITA and LSCM, their overall level of industry contribution for the last two years had shown marked improvements, achieving 25.6% and 18.1% respectively, exceeding their target level of 18%. At the Panel meeting held on 19 November 2013, Members noted the sustained improvement of the two R&D Centres and supported our proposal for further extending their operation for two more years until 31 March 2017 to align with that of APAS and NAMI. We will shortly seek FC's approval for the additional funding required for extending their operation. In line with the established practice, a detailed report on the work of the R&D Centres will be submitted to the Panel around June.

R&D Cash Rebate Scheme

42. The \$200 million R&D Cash Rebate Scheme launched in April 2010 provides cash rebate on the investment by enterprises in conducting R&D projects either funded under the ITF or in partnership with designated local public research institutions.

43. To enhance the effectiveness of the Scheme, we increased the level of cash rebate by three-fold, from 10% to 30% with effect from 1 February 2012. We completed a comprehensive review of the Scheme for its first three-year operation and reported the results to the C&I Panel on 19 February 2013. Panel Members were generally satisfied with the progress of the Scheme and our proposed refinements to the Scheme, which were implemented on 1 April 2013.

44. The industry has responded positively towards the increase of cash rebate level. The number of approved applications in 2012-13 was 191, an increase of 10% from 174 cases in the same period in 2011-12. The number of pre-registrations for the Scheme, which will be followed by formal applications upon completion of the relevant R&D projects, has increased substantially by 170% from 43 in 2011-12 to 116 in 2012-13.

As at end-November 2013, the Scheme has approved more than 730 applications for a total rebate of \$62.9 million.

Capitalising on the opportunities presented by the National 12th Five-Year Plan and working with stakeholders to enhance collaboration with the Mainland on science and technology and promote realisation of R&D results

45. We have been working with stakeholders to enhance collaboration with the Mainland on science and technology so as to capitalise on the opportunities presented by the National 12th Five-Year Plan. To further support the development of Partner State Key Laboratories (PSKLs), we have enhanced the funding support for PSKLs by increasing the existing ceiling of \$2 million each year to \$5 million each year for each PSKLs from 2013-14 until 2015-16. In addition, a new round of application exercise for PSKLs was completed in July 2013, in which MOST approved four new PSKLs by local universities. There are now 16 PSKLs in Hong Kong.

46. With regard to Hong Kong Branches of Chinese National Engineering Research Centres (CNERCs), with the approval of MOST, the Hong Kong Applied Science and Technology Research Institute (ASTRI) partnered with the Southeast University in Nanjing to establish a Hong Kong Branch of the National Application-Specific Integrated Circuit (ASIC) System Engineering Research Centre on a pilot basis in September 2012. Starting from 2013-14, we have implemented the related initiative of providing the Hong Kong Branches of CNERCs with funding up to a ceiling of \$15 million over three years, so as to enhance their collaboration with the Mainland. In addition, with the endorsement of the “Mainland-Hong Kong Science and Technology Co-operation Committee”, ITC will accept applications under the first round of invitation exercise for Hong Kong Branches of CNERCs in the first quarter of 2014. CNERCs focus on providing engineering research and consultancy support to the industries and providing technological support for national socio-economic development. The establishment of more Hong Kong Branches of CNERCs should enhance our science and technology collaboration with the Mainland with a view to promoting commercialisation of R&D results.

47. In November 2013, MOST designated the Hong Kong Science Park as the “Hong Kong National Modern Services Industrialisation

(Partner) Base”. Driving the growth of modern services industries is a key focus in the National 12th Five-Year Plan, with the aim to use modern technology and IT networking as the backbone to support the development of new business, delivery and management models in the service sector.

48. We promote collaboration with our Guangdong counterparts through regular high-level meetings as well as promoting joint R&D collaboration through the Guangdong-Hong Kong Technology Cooperation Funding Scheme. The “Shenzhen-Hong Kong Youth Innovation Entrepreneurship Base”, one part of the package of 39 policy measures announced by the Central Government in late June 2012, was formally established in June 2013 to provide a conducive environment for young entrepreneurs in the two cities who would wish to start their own technology businesses. It also serves as a platform for young entrepreneurs to exchange and incubate ideas.

Working closely with the Hong Kong Science and Technology Parks Corporation (HKSTPC) on the development of Science Park Phase 3 and the revitalisation of industrial estates (IEs)

49. Phases 1 and 2 of the Science Park are now 96% occupied. Construction of the \$4.9 billion Science Park Phase 3 is progressing on schedule and will be completed in phases between this year and 2016. When fully completed, it will provide an additional 105 000 square metres of floor space to accommodate another 150 I&T companies and 4 000 related jobs.

50. To ensure the effective use of land in the IEs, HKSTPC will continue to revitalise the existing three estates in Yuen Long, Tai Po and Tseung Kwan O by encouraging grantees that are not fully utilising their sites (for example due to economic restructuring) to take up new projects, surrender the sites or assign them to new users. Since 2007, HKSTPC has approved 28 assignment applications involving about 29 hectares of land (versus only 19 assignment cases involving 22 hectares of land in the first 29 years of IE operation, i.e. from 1978 to 2006).

51. To provide more land for the longer-term development of the high-tech industry, the Financial Secretary announced in the 2012-13 Budget that the Administration would explore the feasibility of expanding the Yuen Long Industrial Estate (YLIE) by about 16 hectares. The

HKSTPC commissioned a technical assessment consultancy study in July 2012. The consultancy study is progressing on schedule.

52. As the HKSTPC has been established for over a decade, the Government is jointly reviewing with the Corporation the current use and future development directions of the Hong Kong Science Park and Industrial Estates. Our aim is to ensure that the infrastructure and services provided are fully utilised, up-to-date and aligned with the global technology development trends and the local demand.

Organising a wide range of promotional activities in 2014, including the InnoTech Month (ITM), to enhance the community's awareness of innovation and technology

53. We have organised a wide range of promotional activities to enhance public awareness of I&T, including the anchor event ITM held from late October to early December 2013 which attracted over 230 000 visits. We also supported students and enterprises to participate in science and technology competitions or invention exhibitions which brought home impressive awards from overseas in 2013.

54. In 2014, we will continue to organise the ITM and support the organisation of various science and technology competitions and promotional activities to nurture a culture of I&T in the community.

Testing and Certification Industry

Working closely with the Hong Kong Council for Testing and Certification (HKCTC) to implement its enhanced market-driven development plan, and continue to explore business opportunities in testing and certification services required by selected trades

55. Last year, the HKCTC completed a comprehensive review of the implementation of its market-driven three-year industry development plan put forward in 2010. Since then, the Government has been working closely with the Council to progressively implement the various measures recommended in the review.

56. We have been enhancing the existing dual approach to support the further development of the industry – making general improvements to the accreditation service and factors of production of the industry (i.e.

manpower, technology, capital and land), whilst focusing particular attention on six specific trades with good potential for using testing and certification services³.

57. The HKCTC continues to promote “Tested in Hong Kong, Certified in Hong Kong” to potential service users with the assistance from different parties. Promotional booths have been set up at trade fairs, and the HKTDC has also assisted in the promotion outside Hong Kong. Promotion materials published by the HKCTC and the career fairs/talks have brought the industry to a wider audience beyond its traditional service users.

58. On exploring the Mainland market, the latest CEPA X will allow Hong Kong testing and certification organisations without commercial presence on Mainland to send staff to provide services there. The scope of testing services for the purpose of certification that can be undertaken by Hong Kong testing organisations will also be expanded to other areas of voluntary product certification on a pilot basis in Guangdong Province. These measures will help to further enhance the recognition of Hong Kong’s testing and certification results on Mainland.

The Way Forward

59. As set out in the Chief Executive's Policy Address, we will re-initiate the setting up of a new Innovation and Technology Bureau. This is in response to the calls from the technology sector that a new Bureau should be set up to champion Government's efforts in promoting the development of innovation and technology and information technology in Hong Kong. We would consult the relevant Panels of the Legislative Council once the detail proposals are finalised.

Commerce, Industry and Tourism Branch
Innovation and Technology Commission
Commerce and Economic Development Bureau
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³ These six trades are Chinese medicines, construction materials, food, jewellery, environmental protection, and information and communications technologies.