

立法會
Legislative Council

LC Paper No. CB(1)582/14-15
(These minutes have been seen
by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 20 January 2015, at 2:30 pm
in Conference Room 1 of the Legislative Council Complex

- Members present** : Hon WONG Ting-kwong, SBS, JP (Chairman)
Hon Vincent FANG Kang, SBS, JP (Deputy Chairman)
Hon Emily LAU Wai-hing, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon Dennis KWOK
Hon SIN Chung-kai, SBS, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, BBS, MH, JP
Hon CHUNG Kwok-pan
- Member attending** : Hon WONG Kwok-hing, BBS, MH
- Member absent** : Dr Hon LAM Tai-fai, SBS, JP

**Public officers
attending**

: Agenda item IV

Commerce and Economic Development Bureau

Mr Gregory SO, GBS, JP
Secretary for Commerce and Economic Development

Mr Philip YUNG, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Miss Susie HO, JP
Permanent Secretary for Commerce and Economic
Development (Communications and Technology)

Mr Godfrey LEUNG, JP
Under Secretary for Commerce and Economic
Development

Ms Carol YUEN, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)¹

Mr David WONG, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)²

Mrs Alice CHEUNG, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)³

Miss Janet WONG, JP
Commissioner for Innovation and Technology

Mr Kenneth MAK, JP
Director-General of Trade and Industry

Constitutional and Mainland Affairs Bureau

Mr Raymond TAM Chi-yuen, GBS, JP
Secretary for Constitutional and Mainland Affairs

Ms CHANG King-yiu, JP
Permanent Secretary for Constitutional and Mainland
Affairs

Mr LAU Kong-wah, JP
Under Secretary for Constitutional and Mainland
Affairs

Miss Charmaine LEE Pui-sze, JP
Deputy Secretary for Constitutional and Mainland
Affairs (2)

Mr Daniel CHENG Chung-wai, JP
Deputy Secretary for Constitutional and Mainland
Affairs (3)

Agenda item V

Miss Janet WONG, JP
Commissioner for Innovation and Technology

Mr Johann WONG, JP
Deputy Commissioner for Innovation and Technology

Mr Frank TSANG
Assistant Commissioner for Innovation and
Technology (Funding Schemes)

Professor YUE On-ching
Science Advisor
Innovation and Technology Commission

Clerk in attendance : Ms Annette LAM
Chief Council Secretary (1)3

Staff in attendance : Ms Connie HO
Senior Council Secretary (1)3

Miss Rita YUNG
Senior Council Secretary (1)8

Ms May LEUNG
Legislative Assistant (1)3

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)439/14-15 -- Minutes of meeting held on 16 December 2014)

The minutes of the meeting held on 16 December 2014 were confirmed.

II. Information papers issued since last meeting

(LC Paper No. CB(1)364/14-15(01) -- Administration's paper on the 17th Plenary of the Hong Kong/ Guangdong Co-operation Joint Conference

LC Paper No. CB(1)373/14-15(01) -- Administration's paper on the Mainland and Hong Kong Closer Economic Partnership Arrangement

File Ref: CITB CR 102/53/1 -- Legislative Council Brief on United Nations Sanctions (Somalia) (Amendment) Regulation 2015)

2. Members noted that the above papers had been issued since the last meeting.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)438/14-15(01) -- List of outstanding items for discussion

LC Paper No. CB(1)438/14-15(02) -- List of follow-up actions)

3. Members noted that the next regular Panel meeting would be held on 10 February 2015 at 2:30 pm to discuss the following items proposed by the Administration:

- (a) Promotion of inward investment; and
- (b) Development of convention and exhibition industries in Hong Kong.

IV. Briefings by the Secretary for Commerce and Economic Development and the Secretary for Constitutional and Mainland Affairs on the Chief Executive's 2015 Policy Address

(LC Paper No. CB(1)438/14-15(03) -- Administration's paper on 2015 Policy Address — Policy Initiatives of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau

LC Paper No. CB(1)438/14-15(04) -- Administration's paper on 2015 Policy Address — Policy Initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation

LC Paper No. CB(1)455/14-15(01) -- Speaking note of the Secretary for Commerce and Economic Development
(Chinese version only, tabled at the meeting and subsequently issued on 21 January 2015)

LC Paper No. CB(1)455/14-15(02) -- Speaking note of the Secretary for Constitutional and Mainland Affairs
(Chinese version only, tabled at the meeting and subsequently issued on 21 January 2015)

Relevant papers

- (a) Address by the Chief Executive at the Legislative Council meeting on 14 January 2015 (*issued on 14 January 2015*); and
- (b) The 2015 Policy Agenda booklet (*issued on 14 January 2015*).

Presentation by the Administration

4. At the invitation of the Chairman, Secretary for Commerce and Economic Development ("SCED") briefed members on the policy initiatives of the Commerce, Industry and Tourism Branch as well as Innovation and Technology Commission ("ITC") of the Commerce and Economic Development

Bureau ("CEDB") featured in the 2015 Policy Address. Details of the relevant policy initiatives were set out in the Administration's paper (LC Paper No. CB(1)438/14-15(03) and SCED's speaking note (CB(1)455/14-15(01)).

5. Secretary for Constitutional and Mainland Affairs ("SCMA") then briefed members on the policy initiatives of the Constitutional and Mainland Affairs Bureau ("CMAB") in relation to Mainland and Taiwan co-operation featured in the 2015 Policy Address. Details of the relevant policy initiatives were set out in the Administration's paper (LC Paper No. CB(1)438/14-15(04) and SCMA's speaking note (LC Paper No. CB(1)455/14-15(02)).

Discussion

Hong Kong Economic and Trade Offices ("ETOs")

6. Mr Jeffrey LAM called on the Administration to consider setting up more ETOs in the Mainland to help Hong Kong enterprises to tap the vast business opportunities in the Mainland and provide assistance for Hong Kong businessmen and residents there. He also urged the Administration to expeditiously set up more ETOs of a smaller scale in the form of a Hong Kong Desk in emerging markets in Southeast Asian countries. Pointing out that some overseas media coverage over the recent Occupy Central movement in Hong Kong had aroused much concern of the international community about the situation in Hong Kong, Mr LAM said that overseas ETOs could help reflect Hong Kong's situation in their host countries to mitigate the negative impact brought about by the reports.

7. SCED responded that apart from briefing their interlocutors in government bodies, business communities and the media in the host countries on the latest situation in Hong Kong, overseas ETOs had been, as in the case of the Vietnam Incident that happened in May 2014, providing information and assisting Hong Kong enterprises and people in the host countries where necessary. In the light of the gradual shift of the global economic balance towards the east, the Administration would actively explore the feasibility of increasing the number of ETOs in the region, and continue to strengthen Hong Kong's economic and trade relations with emerging economies.

8. SCMA advised that the core functions of Mainland ETOs included, among others, promoting Hong Kong as an ideal platform for Mainland enterprises to go global and attract inward investment; liaising with Hong Kong enterprises and residents in the Mainland and providing information and assistance to them as appropriate; as well as providing, through the Immigration Divisions, practical assistance to Hong Kong residents in distress in the Mainland. He said that upon the establishment of the Wuhan ETO in April

2014, the Hong Kong Special Administrative Region ("HKSAR") Government now had a more comprehensive ETO network in the Mainland, with the Shanghai ETO in the east, the Guangdong ETO in the south, the Chengdu ETO in the west, the Beijing Office in the north and the Wuhan ETO in the central region. To further expand the network of the Mainland ETOs, a liaison unit in Liaoning Province was set up in December 2014 to underpin the Beijing Office to facilitate Hong Kong people and enterprises to take advantage of the opportunities brought about by the rapid development of the northeast region. The Administration also planned to set up a liaison unit in Shandong Province under the Shanghai ETO in the first half of 2015, and another one in the central region upon the full-fledged operation of the Wuhan ETO. The Administration would consider establishing more ETOs and liaisons units in the Mainland having regard to the operational need and availability of resources.

Negotiation of free trade agreements ("FTAs")

9. Noting that the Mainland had signed FTAs with South Korea and Australia respectively, Mr Andrew LEUNG enquired whether the Administration would initiate negotiation of FTAs with other countries on top of the Association of Southeast Asian Nations ("ASEAN"). SCED responded that the FTA negotiation between Hong Kong and the 10 member nations of the ASEAN had commenced in July 2014. The Administration would primarily focus on the FTA negotiations with the ASEAN in view of the considerable time and effort required to conclude the relevant negotiations. Meanwhile, the Administration would continue to reach out to other economies, particularly the major trade partners of Hong Kong to expand the FTA network.

Convention and exhibition facilities

10. Mr Andrew LEUNG declared that he was a Council Member of the Hong Kong Trade Development Council ("HKTDC"). Noting that the Administration would invite the HKTDC to proceed with the planning and consider constructing a new convention centre above the Exhibition Station of the Shatin to Central Link ("SCL"), Mr LEUNG enquired whether the Administration would provide any assistance to HKTDC in this regard. SCED responded that while HKTDC would undertake the planning of the proposed convention centre with its own resources, the Administration would work closely with HKTDC in taking forward the planning work of the project.

11. Pointing out that Hong Kong had lagged behind its neighbouring countries in terms of the provision of exhibition facilities, the Deputy Chairman enquired whether the Administration had any plan for constructing more exhibition facilities. SCED replied that apart from the proposed convention centre, the Administration would continue to look for suitable locations with the

necessary supporting facilities, including hotel accommodation, catering, transportation and entertainment facilities, for developing more convention and exhibition facilities.

12. Mr Charles MOK urged the Administration to expedite the construction of the proposed convention centre as Hong Kong had lost out to Singapore in hosting some large scale international conferences due to the saturation of the conference facilities of the Hong Kong Convention and Exhibition Centre ("HKCEC"). Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) ("PSCIT") responded that implementation of the proposed convention centre project had to tie in with the construction of the Exhibition Station of the SCL. To maximize the utilization of the existing convention and exhibition facilities in HKCEC and the AsiaWorld-Expo ("AWE"), the two major conference and exhibition venues in Hong Kong, the Meetings and Exhibitions Hong Kong ("MEHK") under the Hong Kong Tourism Board had assisted event organizers in the past to identify suitable venues in Hong Kong to stage their exhibitions or conventions. PSCIT assured members that the MEHK would continue to provide the one-stop professional support in the future to maximize the effective use of venues.

Support measures for small and medium enterprises ("SMEs")

13. The Deputy Chairman expressed concern that some micro-enterprises badly hit by the Occupy Central movement had not been able to benefit from the Government loan guarantee schemes for SMEs, and called upon the Administration to assist these micro-enterprises tide over their cash flow problem. Relaying the feedback of the banking sector, Mr CHUNG Kwok-pan said that banks were in general reluctant to process SME applications under the SME Loan Guarantee Scheme ("SGS") administered by the Trade and Industry Department mainly due to the cumbersome administrative procedures and the lengthy process in claiming against the Administration for the loans guaranteed. The Hong Kong Mortgage Corporation ("HKMC"), on the other hand, had been too stringent in vetting the applications under the SME Financing Guarantee Scheme ("SFGS") special concessionary measures. He urged the Administration to review and streamline the relevant procedures.

14. SCED responded that micro-enterprises were eligible to apply for financing under various SME funding schemes, including the SGS and the special concessionary measures under SFGS. Whether or not to approve individual SMEs' applications was purely a commercial decision of the banks concerned. He said that as at end-December 2014, out of the 10,766 applications for the special concessionary measures under SFGS, over 9 600 applications were approved, involving a total loan guarantee amount of about \$31.8 billion. After deducting the number of withdrawn applications and

applications that were being processed, only 69 applications (representing 0.7% of the total applications) were rejected by HKMC. The Administration would provide the relevant statistics to Panel members for reference. The Chairman advised Mr CHUNG Kwok-pan to furnish the Administration with more specific information about the banking sector's feedback on the operation of the funding schemes.

(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)533/14-15(01) on 9 February 2015.)

Development of the fashion industry

15. Mr CHUNG Kwok-pan said that he was glad to note that the Economic Development Commission had endorsed the recommendations on the support measures to promote the sustainable development of the fashion industry as put forward by the Expert Group on Fashion Industry established by the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries. He enquired about the timeframe for the full implementation of the recommendations. SCED responded that the recommendations covered three aspects, namely, nurturing of talents and promoting collaboration between the traditional manufacturing industry and the fashion-related design industry; strengthening promotional activities; and the related institutional arrangements. These measures would be rolled out in phases according to their respective specific area of work and the time required for implementation.

Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA")

16. Mr MA Fung-kwok expressed disappointment that no progress had been made in respect of the publishing industry's request for further liberalization measures under CEPA to allow Hong Kong publishers to publish books and magazines in the Mainland directly on a quota basis. Mr MA enquired about the difficulties encountered in pursuing the relevant liberalization measures for the publishing industry.

17. Director-General of Trade and Industry responded that the Administration had relayed to the Mainland authorities the publishing industry's call for further liberalization measures under CEPA. He said that the "Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong" ("the Agreement") signed between the Ministry of Commerce of the Central Government and the HKSAR Government in December 2014 had adopted a hybrid approach of negative and

positive listings. Liberalization measures of the cultural service sector, which covered the publishing industry, remained positively listed under the Agreement owing to the Mainland's more prudent approach in opening up this sector to external service suppliers. The Administration would continue to reflect the publishing industry's views to the Mainland authorities and strive for further liberalization measures under CEPA.

Innovation and technology

18. Mr Jeffrey LAM indicated his support for the Administration's proposal to inject \$5 billion into the Innovation and Technology Fund ("ITF") and subsume the Research and Development ("R&D") Cash Rebate Scheme under the ITF to provide sustained and comprehensive support for innovation and technology ("I&T") development. Mr LAM suggested the Administration to also consider offering tax concession for R&D expenditure to encourage private sector participation in R&D. He said that similar tax incentive measures adopted in some overseas jurisdictions had been successful in promoting private sector R&D investment.

19. Mr Charles MOK concurred with Mr Jeffrey LAM. He said that comparing to the new Enterprise Support Scheme to be launched under ITF, the tax concession for R&D expenditure might be more attractive to enterprises and thus more effective in stimulating private sector investment in R&D. He added that to successfully promote the development of industries and R&D in Hong Kong, the Administration should dedicate additional resources to foster the commercialization of R&D deliverables and encourage users, in particular SMEs, to adopt new technologies. In this connection, Mr MOK called for the expansion of the Dedicated Fund on Branding, Upgrading and Domestic Sales ("the BUD Fund") and the Retail Technologies Adoption Fund for Manpower Demand Management ("RTAF"), and the introduction of more similar schemes.

20. SCED responded that in addition to the BUD Fund and the RTAF, the Administration had been implementing various programmes to encourage SMEs to take advantage of information and communications technology ("ICT"). The Administration had also been promoting intellectual property trading in Hong Kong and had put in place a host of support measures for start-ups that were conducive to promoting the use of I&T and ICT innovations in the private sector.

21. On improving the eco-system for start-ups, Mr Charles MOK called on the Administration to consider formulating relevant financial policies and legislation to facilitate angel investors, venture capitalist firms or crowdfunding to set up their businesses and provide financial support for start-ups in Hong

Kong. Referring to some overseas governments' practice of making capital investments in start-ups during their early stage of development, he called on the Administration to offer more funding support for start-ups at their seed stage, thereby enhancing valuation of the start-ups and help attract further investment from angel investors, venture capitalist firms or crowdfunding.

Development of Hong Kong Science Park ("HKSP") and revitalization of Industrial Estates ("IEs")

22. Mr WONG Kwok-hing said that he was disappointed with the rezoning of the site at Pak Shek Kok (East) ("Pak Shek Kok site"), which was originally designated for HKSP Phase 4 development, to residential use for medium-density private residential development. He opined that the existing land area in HKSP was not sufficient to sustain its long-term development, and the Administration should allocate other sites for the Phase 4 development of HKSP and consider the development of the 4th IE.

23. Mr Charles MOK questioned the rationale for the rezoning of the Pak Shek Kok site which would probably be developed into luxury residential units that could hardly relieve the pressing housing needs of the needy. He asked whether the Administration would allocate land in other new development areas, such as Kwu Tung North New Development Area ("NDA") and Hung Shui Kiu NDA, for R&D related uses following the rezoning of the Pak Shek Kok site. Pointing out that some infrastructures for I&T industries, such as data centres, required long-term planning, Mr MOK urged the Administration to disclose its plans to the I&T industries early such that interested companies could plan ahead and have the peace of mind to invest. In respect of the development of IEs, Mr MOK considered that the Administration should relax the development constraints of the three existing IEs and improve the supporting facilities therein in the light of their changing industries mix.

24. The Deputy Chairman remarked that the comparatively low ratio of Hong Kong's gross expenditure on R&D to Gross Domestic Product ("GDP") and the rezoning of the Pak Shek Kok site reflected that the Administration had not dedicated adequate resources to vigorously promote the development of I&T industries in Hong Kong. He said that the Administration should take a more proactive role in increasing the supply of R&D facilities in Hong Kong.

25. Ir Dr LO Wai-kwok declared that he was a member of the Board of Directors of Hong Kong Science and Technology Parks Corporation ("HKSTPC"). He said that he was strongly against the rezoning of the Pak Shek Kok site and that the I&T sector was disappointed by the rezoning proposal. He urged the Administration to formulate forward-looking and concrete plans to develop high-value-added industries in NDAs, and enquired

about the coordination between CEDB and the Development Bureau in this regard. Ir Dr LO also called on the Administration to step up its efforts in promoting investment in R&D given that Hong Kong's gross expenditure on R&D as a ratio to GDP at below 1% was low compared with neighbouring competitors.

26. Commissioner for Innovation and Technology ("CIT") responded that the HKSP Phase 3 development would be completed in stages between 2014 and 2016. Upon completion, the additional floor area thus made available would be able to meet the demand for floor area arising from R&D activities in the coming few years. In the light of the severe shortage of land resources in Hong Kong, the Administration would consider suitably raising the development density of HKSP to increase its land utilization for the development of new R&D facilities. To sustain the long-term development of I&T industries, the Administration had reserved sites in the Kwu Tung North NDA and Lok Ma Chau Loop area for development of high-tech industries and R&D facilities. While the development of the respective reserved sites had to tie in with the overall development plans of the concerned NDAs, flexibility in the proposed land uses of the reserved sites would be provided to accommodate the latest technologies in the I&T industries.

27. In respect of the development of IEs, CIT advised that the Administration would consider means to maximize the development potentials of existing land areas in the three IEs in Yuen Long, Tai Po and Tseung Kwan O. To ensure the effective use of land in IEs, HKSTPC would also continue to revitalize the IEs through different means and encourage grantees that were not fully utilizing their sites to take up new projects or surrender the sites. The development of vacant sites in IEs, including those reserved by government departments, would also be reviewed. CIT said that the Administration had, in conjunction with HKSTPC, completed a review on the long-term development direction of HKSP and IEs. The Administration would consult the Panel on the outcome in the near future.

National Five-Year Plan

28. Mr SIN Chung-kai noted from paragraph 22 of the 2015 Policy Address that the HKSAR Government had submitted its proposals for the National 13th Five-year Plan to the Central Government. He enquired about the content of the proposals and requested the Administration to furnish the Panel with the relevant information. SCMA said that an information paper on the work of the HKSAR Government to complement the National 13th Five-Year Plan was circulated to Panel members in April 2014 under LC Paper No. CB(1)1258/13-14(01). The Administration had, upon soliciting the views of relevant sectors and advisory committees, consolidated the proposed areas of

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study and formulated the proposals on the National 13th Five-Year Plan for submission to the National Development and Reform Commission of the Central Government ("NDRC") for consideration when conducting its preliminary research work on the plan. Permanent Secretary for Constitutional and Mainland Affairs ("PSCMA") added that while it might not be appropriate for the Administration to disclose the discussion with the NDRC without its prior consent, the Administration could furnish the Panel with information on the Government's proposed topics/areas of study for members' reference.

Regional Cooperation

29. Noting that Nansha, Qianhai and Hengqin were major cooperation projects amongst Guangdong, Hong Kong and Macao, Mr Andrew LEUNG enquired whether the Administration had any specific work plan to help Hong Kong enterprises tap the business opportunities brought about by the development of these three areas, such as arranging visits of delegations of Hong Kong business and professional sectors to these areas. SCMA responded that Nansha, Qianhai and Hengqin had different positioning. Given a suitable timing and subject to the interests and needs of members as well as the trade, the Administration could help arrange members of the Panel as well as delegations of Hong Kong business and professional sectors to visit the three areas and receive briefings from the concerned management authorities to learn about their development plans.

30. Referring to the setting up of three new pilot FTZs in Tianjin, Guangdong Province and Fujian Province on 1 March 2015 as announced by Central Government in December 2014, Ir Dr LO Wai-kwok urged the Administration to formulate concrete plans to help Hong Kong enterprises to grasp the business opportunities in the new pilot FTZs, in particular the Fujian and Tianjin Pilot FTZs. SCMA advised that the HKSAR Government delegation led by the Chief Secretary for Administration would attend the First Hong Kong/Fujian Cooperation Conference in Fuzhou on 22 January 2015 during which the delegation would receive a briefing from the Fujian Provincial Government on the development strategy of the Fujian Pilot FTZ. The Administration could share with members of the Panel when further information about the development of the Fujian Pilot FTZ was available. Ir Dr LO hoped that more information about the development of the new pilot FTZs could be obtained through exchanges between senior government officials of HKSAR and those of the relevant municipal/provinces.

31. Mr CHUNG Kwok-pan referred to the setting up of the "Qianhai Shenzhen-Hong Kong Youth Innovation and Entrepreneur Hub" ("E Hub") by the Qianhai Management Authority ("QMA") to provide an innovative entrepreneurial base for young people of Hong Kong and Shenzhen. He

enquired whether the Administration would consider formulating specific preferential policies and measures to assist Hong Kong young people to set up their own businesses in Hong Kong.

32. SCED responded that the Administration had put in place a host of measures and funding schemes to support start-ups and young entrepreneurs in Hong Kong. Depending on the nature of their business, start-ups could join the incubation programmes operated by the HKSP, the Cyberport and the Hong Kong Design Centre as appropriate. Subject to their meeting of the relevant eligibility criteria, start-ups could also apply for Government's funding support under various SMEs funding schemes to finance their operations in different stages.

33. In response to Mr Charles MOK's enquiry about the role of HKSAR Government in the E Hub project, PSCMA clarified that the E Hub project initiated by the QMA was not a project of the HKSAR Government. The QMA had engaged a non-government organization to help promote the project in Hong Kong. The Administration would closely monitor the latest development of this project through the platform of Hong Kong/Shenzhen Co-operation Meeting and assist as far as possible the QMA in its dissemination of relevant information to young people of Hong Kong.

V. Injection into the Innovation and Technology Fund

(LC Paper No. CB(1)438/14-15(05) -- Administration's paper on injection into the Innovation and Technology Fund

LC Paper No. CB(1)438/14-15(06) -- Paper on the Innovation and Technology Fund prepared by the Legislative Council Secretariat (background brief)

Presentation by the Administration

34. At the invitation of the Chairman, Commissioner for Innovation and Technology ("CIT") briefed members on the proposal to inject an additional \$5 billion into the Innovation and Technology Fund ("ITF") and to subsume the Research and Development Cash Rebate Scheme ("CRS") under the ITF. Details of the proposal were set out in the Administration's paper (LC Paper No. CB(1)438/14-15(05)).

35. CIT highlighted that following the discussion of the proposed Enterprise Support Scheme ("ESS") to replace the Small Entrepreneur Research Assistance Programme ("SERAP") under the ITF at the Panel meeting on 16 December 2014, the Administration had provided written response under LC Paper No. CB(1)443/14-15(01) to address members' concerns about the implementation details of the ESS. The Administration intended to launch the ESS as early as possible, targeting around March 2015.

Discussion

Injection into the ITF

36. Mr Charles MOK supported the Administration's proposal to inject \$5 billion into the ITF. He affirmed the role of the ITF in promoting the development of innovation and technology ("I&T") in Hong Kong, and called on the Administration to regularly review the implementation of the ITF and make necessary enhancement for further improvement. Noting that the ITF had been in operation for some 15 years, Mr MOK commented that the initial appropriation of \$5 billion to the ITF in 1999 had been spent at a slow pace. He urged the Administration to speed up the usage of the ITF to vigorously promote the development of I&T in Hong Kong. Sharing a similar view, Mr CHUNG Kwok-pan pointed out that some developed economies invested tens of billions of dollars in I&T every year.

37. In response, CIT advised that in addition to the initial injection of \$5 billion into the ITF in 1999, the total revenue earned over the years was about \$4.1 billion, comprising mainly the investment income from the Exchange Fund to which the unspent ITF funding had been parked plus the project incomes ploughed back to the ITF over the years. As at end-November 2014, the ITF had supported over 4 250 projects, involving a total funding of about \$8.9 billion.

38. CIT further advised that from the early years of the inception of the ITF to 2006, the focus of the ITF was more on supporting projects conducted by universities, the Hong Kong Applied Science and Technology Research Institute, and the Hong Kong Productivity Council. After a large scale consultation exercise, the Administration set up five Research and Development ("R&D") Centres in 2006 to drive and co-ordinate applied R&D in selected areas that had potentials for further development in Hong Kong. The ITF also provided funding support to Partner State Key Laboratories and Hong Kong Branch of Chinese National Engineering Research Centres to strengthen their R&D capabilities and collaboration with the Mainland in R&D. Based on the expenditure pattern of the ITF in recent years, the Administration estimated that with the proposed injection of \$5 billion, the ITF could continue to operate for

around 5 to 6 years until 2020-2021. CIT added that while the actual cash flow might vary depending on the number and amount of funding applications approved under different funding programmes and changes in policy, the introduction of new initiatives/schemes in the future might also speed up the usage of funds. The Administration would continue to closely monitor the utilization of the ITF funding and seek additional funding as appropriate. At the request of the Chairman, CIT agreed to provide to the Panel information on the cumulative amount of funding approved by the ITF.

(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)516/14-15(01) on 5 February 2015.)

39. Ir Dr LO Wai-kwok declared that that he was a non-remunerated member of the Board of Directors of the Nano and Advanced Materials Institute. He expressed support for injecting an additional \$5 billion into the ITF to provide sustained and comprehensive support for I&T development, including the continued operation of the R&D Centres set up under the ITF. He sought clarification on the uncommitted balance, cash balance as well as cash flow forecast of the ITF. CIT and Deputy Commissioner for Innovation and Technology ("DCIT") responded that as at end-November 2014, the uncommitted balance of the ITF was \$0.2 billion which would be available for funding new applications. The cash balance was about \$1.3 billion. According to the latest cash flow forecast, the uncommitted balance of the ITF would be fully committed in mid-2015 and the cash balance would be exhausted by early 2016.

40. Ir Dr LO Wai-kwok opined that the Administration should have sought further funding injection for the ITF at an earlier date as the uncommitted balance would soon be fully committed in mid-2015. Mr CHUNG Kwok-pan considered that the Administration should have requested for a larger amount of injection, say \$10 billion, into the ITF to ensure sustained operation of the ITF. CIT responded that injection into the ITF involved public funding. The Innovation and Technology Commission ("ITC"), being a government department, had to maintain financial discipline and comply with the necessary procedures and established mechanism for resource allocation. Subject to the Panel's support, ITC would seek the Finance Committee's approval for the injection into the ITF as soon as practicable.

41. Dr CHIANG Lai-wan supported the funding injection into the ITF to bring new impetus to the sustained development of I&T in Hong Kong. She enquired about the distribution of funding among the three funding programmes under the ITF that supported R&D activities, namely the Innovation and Technology Support Programme ("ITSP"), University-Industry Collaboration

Programme, and SERAP. In response, CIT advised that there was no pre-determined distribution ratio or a quota on the number of projects to be funded under the three funding programmes. All applications would be given due consideration and projects meeting the assessment criteria of the respective programme would be approved as long as the uncommitted balance of the ITF remained positive. Among the three programmes, ITSP, which supported applied R&D projects mainly undertaken by the five R&D Centres, local universities and other designated local public research, accounted for around 40% of the total number of projects approved and around 80% of the approved funding. Dr CHIANG Lai-wan remarked that more of the ITF funding should be used to support and encourage the private sector including small technology-based enterprises to undertake in-house R&D projects and invest in I&T.

Subsuming CRS under the ITF

42. Mr Charles MOK enquired about the current financial position of the CRS, and the possible financial implications on the ITF after the CRS was subsumed under the ITF. He was concerned that the funds of the ITF would be exhausted quickly by then. CIT and Assistant Commissioner for Innovation and Technology (Funding Schemes) responded that the CRS was launched in April 2010 with a funding commitment of \$200 million. The current uncommitted balance stood at about \$30 million. The CRS had been operating smoothly and the industry's response had been increasingly positive, especially after the increase of cash rebate level from 10% to 30% in February 2012. For example, the amount of cash rebate approved had continued to increase from \$11.4 million in 2011-2012 to \$30 million in 2013-2014. Based on the existing trend, ITC estimated that new cash rebate commitment each year would be around \$50 million in the coming few years. Comparing with the average yearly expenditure of the ITF of about \$750 million in recent years, subsuming the CRS under the ITF would not have any significant impact on the financial position of the ITF.

Commercialization of R&D outcomes of ITF-funded projects

43. Citing as an example a non-invasive pre-natal testing for Down's Syndrome developed by The Chinese University of Hong Kong which was subsequently licensed to a biotechnology company in the United States, Dr CHIANG Lai-wan noted with concern that the local community and economy could not share the benefits of the new technology. Dr CHIANG opined that the ITF should focus on funding projects that were commercially viable and suitable for manufacturing in Hong Kong, thereby generating actual economic contributions to Hong Kong's economy. The Administration should also step up efforts in helping the R&D and innovative sectors to bring innovative

technologies from the laboratory to the market, and incorporate R&D outcomes into products or services for sales in the market.

44. CIT responded that the Administration had refined the assessment framework for ITF applications since 2011 so that in assessing a project proposal, besides putting emphasis on its scientific/technical component, consideration was also given to the holistic plan of realization/commercialization so as to encourage and identify projects with greater prospect of realization/commercialization. In addition, the Public Sector Trial Scheme provided additional funding to completed R&D projects funded by the ITF for the production of tools/prototypes/samples and for conducting trials in the public sector. In recent years, there had been a significant increase in the number of cases in realizing R&D outcomes in the public sector and commercialization of R&D outcomes. With the various improvement measures implemented in 2014 to further facilitate conduct of larger scale trial projects in the public sector and more efforts to facilitate cross-institutional collaboration, the Administration expected that the increasing application of R&D outcomes could bring greater impact to the community.

45. Citing the case of an ITF recipient company, Dr CHIANG Lai-wan was concerned that the company was unable to receive continued funding to pursue further stages of commercialization of the project outcomes after the original funding approved had exhausted. CIT explained that the maximum timeframe for each ITSP project was two years, but the fund recipient could submit another project application near the completion of the first project to seek further funding from the ITF to undertake follow-on R&D work. The Chairman suggested Dr CHIANG Lai-wan to follow up with ITC directly with more details on the specific case.

Supporting technology transfer in universities

46. Mr Charles MOK enquired about the funding support provided to the Technology Transfer Offices ("TTOs") of universities and the details of the Technology Start-up Support Scheme for Universities ("TSSSU").

47. In response, CIT and DCIT advised that the Administration had been supporting technology transfer and technopreneurial activities of universities through funding their TTOs and technology start-ups selected by the universities. To enhance the capacities of the TTOs to transfer their R&D results into real world applications to the benefit of the community, an annual funding of up to \$4 million under the ITF had been provided to each of the six universities, initially for three years from 2013-2014 to 2015-2016. One of the main objectives of the funding was to support the TTOs to build up the necessary professional support services for technology transfer such as contract

negotiations, protection of intellectual property, financial management, promotional and relevant marketing activities, etc.

48. CIT further advised that the TSSSU was set up in September 2014 to provide an annual funding of up to \$4 million to each of the six local universities, initially for three years, to encourage their students and faculty members to start technology businesses and commercialize their R&D outcomes. The ITF funding would be provided to the start-ups as a grant (i.e. neither a capital investment in the start-ups nor a loan). There was no limit on the number of start-ups selected for funding by each university subject to the annual funding ceiling of \$4 million for each university. The universities would select from their own R&D projects that had good technological content and commercialization potentials. Each start-up would be funded for not more than three years with an annual funding capped at \$1.2 million.

49. Mr Charles MOK hoped that the TSSSU and the funding support for TTOs would encourage more entrepreneurial activities in the universities and facilitate more applications of R&D outcomes and commercial development of university intellectual property. He called on the Administration to review the effectiveness of the TSSSU at appropriate time and consider increasing the annual funding ceiling for each university where necessary.

Other measures to promote development of I&T

50. Ir Dr LO Wai-kwok appreciated the achievements of the Partner State Key Laboratories which were recognized by the Ministry of Science and Technology as an R&D partner of a corresponding Mainland State Key Laboratory for their research excellence in a particular technology area. Expressing concern that Hong Kong's gross expenditure on R&D as a percentage to Gross Domestic Product was low compared to other knowledge-based economies, he urged the Administration to increase resources to vigorously promote the development of I&T in Hong Kong and nurture local I&T talents. Mr SIN Chung-kai noted with concern that the majority of postgraduate students in local universities, particularly of science, engineering and technology subjects, were Mainland and overseas students. Ir Dr LO and Mr SIN opined that the promotion of I&T required long-term and coordinated efforts of various government departments/bureaux and institutions to build up an eco-system on I&T. The Administration should widely publicize successful cases of R&D application and the achievements of Hong Kong's R&D sector so as to foster an innovation culture in the community and attract local university graduates with science and technology background to consider pursuing R&D and I&T as a life-long career. CIT took note of members' views.

Summing up

51. The Chairman concluded that the Panel supported the Administration's proposal to inject \$5 billion into the ITF and to subsume the CRS under the ITF. He called on the Administration to ensure effective utilization of the ITF funding to support R&D activities and facilitate the application of R&D outcomes such that I&T development in Hong Kong could benefit the industry and/or community at large.

VI. Any other business

52. There being no other business, the meeting ended at 4:35 pm.

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Legislative Council Secretariat
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