

立法會
Legislative Council

LC Paper No. CB(1)665/15-16
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by the Administration)

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Panel on Commerce and Industry

**Minutes of policy briefing cum meeting
held on Tuesday, 19 January 2016, 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
Dr Hon LAM Tai-fai, SBS, 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, SBS, MH, JP
Hon CHUNG Kwok-pan

Member attending : Hon WONG Kwok-hing, BBS, MH

**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)

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

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 Ronald CHAN Ngok-pang, JP
Under Secretary for Constitutional and Mainland
Affairs

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

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

Innovation and Technology Bureau

Mr Nicholas W YANG, JP
Secretary for Innovation and Technology

Mr CHEUK Wing-hing, JP
Permanent Secretary for Innovation and Technology

Mrs Millie NG KIANG Mei-nei
Deputy Secretary for Innovation and Technology

Ms Annie CHOI Suk-han, JP
Commissioner for Innovation and Technology

Mr Johann WONG Chung-yan, JP
Deputy Commissioner for Innovation and Technology

Mr Allen YEUNG, Ir
Government Chief Information Officer

Agenda item V

Mrs Millie NG KIANG Mei-nei
Deputy Secretary for Innovation and Technology
Innovation and Technology Bureau

Mr Johann WONG Chung-yan, JP
Deputy Commissioner for Innovation and Technology
Innovation and Technology Commission

Miss Pamela LAM
Assistant Commissioner (Policy and Development)
Innovation and Technology Commission

Clerk in attendance : Mr Desmond LAM
Chief Council Secretary (1)3

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

Miss Judy YEE
Council Secretary (1)3

Ms May LEUNG
Legislative Assistant (1)3

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)434/15-16 -- Minutes of meeting held on 17 November 2015)

1. The minutes of the meeting held on 17 November 2015 were confirmed.

II. Information papers issued since last meeting

(File Ref: CITB CR 104/53/1 -- Legislative Council Brief on United Nations Sanctions (Liberia) (No. 2) Regulation 2015 and United Nations Sanctions (Liberia) Regulation 2015 (Repeal) Regulation

LC Paper No. CB(1)390/15-16(01) -- Information paper on the financial position of the Applied Research Fund for the period from 1 March to 31 May 2015)

2. Members noted the above paper issued since the last meeting.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)436/15-16(01) -- List of outstanding items for discussion

LC Paper No. CB(1)436/15-16(02) -- List of follow-up actions)

3. Members noted that the next regular Panel meeting would be held on 16 February 2016 at 2:30 pm to discuss the following items proposed by the Administration:

- (a) Progress on further liberalization under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"); and
- (b) Promotion of inward investment.

IV. Briefings by the Secretary for Commerce and Economic Development, the Secretary for Constitutional and Mainland Affairs and the Secretary for Innovation and Technology on the Chief Executive's 2016 Policy Address

(LC Paper No. CB(1)436/15-16(03) -- Administration's paper on "2016 Policy Address —— Policy Initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau"

LC Paper No. CB(1)436/15-16(04) -- Administration's paper on "2016 Policy Address —— Policy initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation"

LC Paper No. CB(1)436/15-16(05) -- Administration's paper on "2016 Policy Address —— Policy Initiatives of Innovation and Technology Bureau"

LC Paper No. CB(1)455/15-16(01) -- Speaking note of the Secretary for Commerce and Economic Development
(*Chinese version only, tabled at the meeting and subsequently issued on 20 January 2016*)

LC Paper No. CB(1)455/15-16(02) -- Speaking note of the Secretary for Constitutional and Mainland Affairs
(*Chinese version only, tabled at the meeting and subsequently issued on 20 January 2016*)

LC Paper No. CB(1)455/15-16(03) -- Speaking note of the Secretary for Innovation and Technology)
(*Chinese version only, tabled at the meeting and subsequently issued on 20 January 2016*)

Presentation by the Administration

4. At the invitation of the Chairman, Secretary for Commerce and Economic Development ("SCED") briefed the Panel on the policy initiatives of the

Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau ("CEDB") featured in the 2016 Policy Address. Details of the relevant policy initiatives were set out in the Administration's paper (LC Paper No. CB(1)436/15-16(03)) and SCED's speaking note (LC Paper No. CB(1)455/15-16(01)).

5. Secretary for Constitutional and Mainland Affairs ("SCMA") was then invited by the Chairman to brief the Panel on the policy initiatives of the Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation featured in the 2016 Policy Address. Details of the relevant policy initiatives were set out in the Administration's paper (LC Paper No. CB(1)436/15-16(04)) and SCMA's speaking note (LC Paper No. CB(1)455/15-16(02)).

6. Lastly, the Secretary for Innovation and Technology ("S for IT") was invited by the Chairman to brief the Panel on the policy initiatives of the Innovation and Technology Bureau ("ITB") in respect of promotion of innovation and technology ("I&T") featured in the 2016 Policy Address. Details of the relevant policy initiatives were set out in the Administration's paper (LC Paper No. CB(1)436/15-16(05)) and S for IT's speaking note (LC Paper No. CB(1)455/15-16(03)).

Discussion

Seizing the opportunities brought about by the Silk Road Economic Belt and the 21st Century Maritime Silk Road ("the Belt and Road Initiative")

7. Mr Jeffrey LAM sought elaboration on the details of the proposed \$200 million funding to support the professional services sector of Hong Kong in their exchange, promotion and cooperation efforts with the Belt and Road countries and other regions outside Hong Kong (including the Mainland), including the types of activities to be involved under and the expiry of the proposed funding.

8. In response, SCED advised that Hong Kong professional services would benefit from the Belt and Road Initiative as the emerging economies along the Belt and Road region (including the Association of Southeast Asian Nations) would have an increasing demand for high-end professional services. The Administration was prepared to consult the relevant industries in the coming months on their needs for tapping the potential business opportunities in the Belt and Road region, and to work out the implementation details of the proposed funding accordingly.

9. SCED added that the Dedicated Fund on Branding, Upgrading and Domestic Sales, which comprised the "Enterprise Support Programme" and the

"Organization Support Programme", also provided funding support to eligible Hong Kong enterprises and non-profit-distributing organizations respectively to assist 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.

10. Given that more than 60 countries were situated along the Belt and Road, Mr Jeffrey LAM urged the Administration to enhance the network of Hong Kong Economic and Trade Offices in the region to help the Hong Kong business sector grasp the business opportunities arising from the Belt and Road Initiative. In this connection, Mr LAM suggested the Administration to consider setting up a "Hong Kong Desk" in offices of the Hong Kong Trade Development Council ("HKTDC") in the Belt and Road countries. SCED said that the Administration would leverage on the network of the overseas offices of HKTDC, InvestHK and the Hong Kong Tourism Board ("HKTB") in the relevant countries to explore the markets along the Belt and Road. The Administration stayed open-minded about the suggestion by Mr Jeffrey LAM.

11. Dr CHIANG Lai-wan advised that the Administration should disseminate more economic and trade information about the Belt and Road countries to enhance Hong Kong investors' understanding of these economies. She called on the Administration to conduct a detailed analysis on the demand of the enormous population along the Belt and Road for goods and services for reference of the local business sector.

12. SCED responded that with a view to enhancing businesses' understanding of the Belt and Road economies, HKTDC launched a Belt and Road Portal in December 2015 to provide up-to-date and comprehensive market intelligence to help businesses seize opportunities arising from the Belt and Road Initiative. In addition, representatives of the Administration would participate in seminars and trade missions relating to the Belt and Road Initiative organized by chambers of commerce and the industry to discuss with relevant stakeholders the roles of Hong Kong in the Belt and Road Initiative, and study how the Government could facilitate the industries concerned in tapping the business opportunities arising therefrom. The Administration and HKTDC would also jointly organize the inaugural Belt and Road Summit in Hong Kong in May 2016, bringing together government officials and top business executives from economies along the Belt and Road region to explore potential business opportunities.

Rebuilding Hong Kong's image as a hospitable city

13. Mr WONG Kwok-hing observed that the incidents of harassment of mainland tourists had jeopardized the image of Hong Kong and adversely affected the tourism and retail industries as a consequence. He enquired about the

measures to be put in place by the Administration to rebuild Hong Kong's image as a hospitable city and enhance tourists' confidence.

14. SCED said that the unwelcoming attitude to mainland tourists was just held by a small sector of Hong Kong people and the Administration would appeal to the community at large for being hospitable to tourists. Tourist facilities would be expanded to attract more tourists to Hong Kong and enhance their travel experience. With a prime focus on promoting quality travel, the Travel Industry Council of Hong Kong would augment its efforts in tackling the malpractices of coerced shopping. Meanwhile, HKTb would step up publicity work through various media platforms in the Mainland to promote Hong Kong's tourist attractions as well as our image as a hospitable city.

15. SCMA added that the Offices of the Government of the Hong Kong Special Administrative Region ("HKSAR") in the Mainland ("Mainland Offices") complemented the tourism promotion work of CEDb and HKTb in various provinces/municipalities in the Mainland. In addition, the Mainland Offices had explained to their interlocutors that the isolated incidents involving unwelcoming behaviour towards Mainland tourists did not represent mainstream public opinion in Hong Kong.

16. Dr CHIANG Lai-wan was concerned that while the business of small and medium enterprises ("SMEs") had been adversely affected by the continuous decrease in the number of Mainland tourists due to decelerated economic growth in the Mainland, there was no mentioning of the relief measures in place to provide timely assistance to SMEs in the 2016 Policy Address. Dr CHIANG urged the Administration to formulate relief measures in the 2016-2017 Budget to help SMEs tide over their operation difficulties. SCED undertook to convey Dr CHIANG's request to the Financial Secretary.

Promotion of intellectual property trading

17. Mr CHUNG Kwok-pan considered that the development of Hong Kong into an intellectual property ("IP") trading hub should be underpinned by a robust and updated copyright regime. In this connection, Mr CHUNG expressed concern about the impact of the possible veto of the Copyright (Amendment) Bill 2014 ("the Bill") on the development of IP trading in Hong Kong.

18. SCED responded that the Bill aimed to bring the copyright law of Hong Kong in alignment with international standards. He said that veto of the Bill would have a significant impact on the development of IP trading in Hong Kong. Given Hong Kong's outdated copyright right regime, IP buyers might choose not to conduct IP transactions in Hong Kong or adopt Hong Kong law in IP transaction contracts, thereby adversely affecting the potential business

opportunities of the local legal professional sector.

Trade relations between Hong Kong and Taiwan

19. Mr Martin LIAO enquired about the latest development of the Administration's intention to establish between Hong Kong and Taiwan a comprehensive and institutionalized economic and trade co-operation arrangement similar to CEPA or "Cross-Straits Economic Co-operation Framework Agreement" to enhance the trade ties of the two places.

20. SCMA advised that the HKSAR Government had followed up on the matter with Taiwan through the platform of the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council and Taiwan-Hong Kong Economic and Cultural Co-operation Council. SCMA said that the Taiwan side was of the view that the industries of Taiwan in respect of trades in goods and services did not have a strong demand for such an arrangement possibly because Hong Kong was already a free port and did not apply tariffs on imports. Taiwan's professional service sectors were also not keen to enter the Hong Kong market. However, the Taiwan side had expressed interest to deepen co-operation for individual industry sectors between the two places.

21. SCED said that it might be a challenge for Hong Kong to attract its trading partners to forge a free trade agreement with Hong Kong, given that Hong Kong was an open economy and could not offer extra market access incentives to them. That notwithstanding, a comprehensive and institutionalized economic and trade co-operation arrangement between Hong Kong and Taiwan could provide certainty in policies and strengthen confidence of Taiwan investors. Director-General of Trade and Industry ("DGTI") added that apart from forging a bilateral free trade agreement with Taiwan, Hong Kong could secure for its enterprises better conditions for access to the Taiwan services trade market through the plurilateral Trade in Services Agreement being negotiated among 24 World Trade Organization ("WTO") Members, including Hong Kong and Taiwan.

Promotion of Nansha, Qianhai and Hengqin development

22. Mr Andrew LEUNG sought elaboration on the co-operation between Hong Kong and Guangdong Province in promoting the development of the Guangdong Free Trade Zone which covered the Nansha, Qianhai and Hengqin regions. SCMA responded that each of the three regions had its own unique characteristics. He said that the co-operation areas relating to Qianhai, which served as the Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, included the areas of finance, youth co-operation and I&T. The co-operation areas relating to Nansha, the region which positioned itself for integrated development, would be beyond the traditional trade and economic aspects to cover livelihood related

projects. On the principle of achieving mutual benefits through active participation and joint planning, the Guangdong Province intended to draw on Hong Kong's experience in economic development and social management services when establishing the Guangdong-Hong Kong in-depth co-operation zone in Nansha. The HKSAR Government would provide advice on planning concepts and other areas to Guangdong. On the Hengqin front, the region which attached importance to the development of cultural, creativity, tourism and leisure industries, the Administration was discussing with the municipal government of Zhuhai regarding the possible new economic developments of the region to be brought about by the commissioning of the Hong Kong–Zhuhai–Macao Bridge.

Promoting private sector's investment in research and development

23. Mr Jeffrey LAM expressed support for promoting I&T development in Hong Kong. He asked whether the Administration would consider, in order to encourage the industrial sector to enhance their investment in research and development ("R&D"), introducing a 300% tax concession for R&D expenditure incurred by enterprises. Echoing Mr LAM's view, Mr Andrew LEUNG commented that the R&D Cash Rebate Scheme under the Innovation and Technology Fund ("ITF") was not an effective means to drive private sector's R&D investment. Pointing out that the R&D expenditure of Shenzhen already accounted for 4% of its Gross Domestic Product ("GDP"), Mr LEUNG remarked that Hong Kong's gross expenditure on R&D as a ratio to its GDP which stood at about 0.7% had substantially lagged behind our neighbouring countries and cities. He called on the Administration to adopt new thinking in promoting private sector's R&D investment.

24. Permanent Secretary for Innovation and Technology ("PS for IT") advised that in considering any proposal for tax concession for R&D expenditure, the Administration had to take into account a number of factors, including the structure of tax-paying companies, financial implication of the proposal as well as its implications on other areas of public finance. The Administration would proactively consider any measure that would encourage SMEs to adopt new technologies to enhance their productivity and competitiveness. He added that the R&D Cash Rebate Scheme, which provided cash rebate to enterprises on their investment in R&D projects funded by ITF or conducted in partnership with designated local public research institutions, offered incentives to enterprises to undertake R&D activities. S for IT remarked that Hong Kong's economy was primarily driven by the service industry at present which did not involve substantial volume of R&D activities. He considered that Hong Kong's gross expenditure on R&D as a ratio to its GDP would increase should its industries become more diversified.

Innovation and Technology Venture Fund

25. Referring to the setting up of the \$2 billion Innovation and Technology Venture Fund ("ITVF") for the Government to co-invest with private venture capital funds on technology start-ups on a matching basis, Mr Charles MOK advised that the Administration should select the partners under ITVF through a fair, open and transparent mechanism. He was keen to ensure that ITVF could provide genuine assistance to start-ups and promote the development of venture capital industry in Hong Kong, thereby reducing the Government's input of resources to finance start-ups in the long run. He also enquired whether the Administration would draw up key performance indicators ("KPIs") for ITVF to assess its effectiveness. Expressing support for the nine directions and work priorities of ITB in promoting I&T development in Hong Kong, Mr WONG Kwok-hing enquired about the total number of jobs and/or business opportunities that would be created upon implementation of the relevant measures.

26. S for IT responded that the Advisory Committee on Innovation and Technology had been deliberating on the viable KPIs to assess policy effectiveness and would draw up relevant KPIs in due course. He said that the proposed policy initiatives under the nine directions and work priorities of ITB, including ITVF, would nurture an ecosystem conducive to the development of I&T and bring in new industries to drive long-term economic and social developments of Hong Kong. It would be difficult to quantify the number of jobs and business opportunities that would be created upon implementation of the relevant measures. He assured members that the Administration would select the venture capital fund partners under ITVF in a fair and transparent manner.

27. Mr SIN Chung-kai enquired about the risk-sharing mechanism between the Government and the venture capital companies under ITVF and how the Administration could prevent transfer of benefits to the selected partner companies. He also asked how the operation of ITVF would be different from similar funds in other countries. S for IT advised that ITVF aimed to encourage more venture capital funds to invest in local start-ups. ITVF would co-invest in Hong Kong technology start-ups with a number of selected venture capital funds at an investment ratio of about 1 to 2 and such a risk-sharing mechanism was widely adopted by similar funds in other countries. The Administration would take into consideration the characteristics of the industries in Hong Kong to work out the co-operation details with venture capital funds that would best suit the local situation.

Promoting "re-industrialization"

28. Dr CHIANG Lai-wan enquired about the focus of the "re-industrialization" initiative. S for IT responded that the "re-industrialization" initiative would focus

on three specific areas, namely, "Smart City", "robotics" and "healthy ageing". He said that Hong Kong possessed strengths in the areas of "Smart City" and "robotics" while the area of "healthy ageing" was underpinned by strong internal and external demand for relevant technologies and products due to the global trend of rapid ageing.

29. Mr Andrew LEUNG enquired about the specific policies and measures that would be put in place by the Administration to encourage the industrial sector to relocate their production base to Hong Kong to complement the "re-industrialization" initiative. S for IT advised that ITB promoted "re-industrialization" through the provision of infrastructure and funding support, as well as enhancing the research capability of local R&D institutions and nurturing of talents for the I&T industry. On the provision of infrastructure, the Administration and the Hong Kong Science and Technology Park Corporation ("HKSTPC") had revised the Industrial Estate ("IE") policy to develop multi-storey high-efficiency specialized buildings in IEs for promoting smart production and attracting high value-added technology industries and production processes suitable for Hong Kong. With regard to the provision of funding, three new funding schemes would be set up, namely, the \$2 billion ITVF, the \$2 billion midstream R&D fund and the \$500 million Innovation and Technology Fund for Better Living ("ITFBL"). On enhancing the research capability of local R&D institutions, ITB made focused efforts in promoting the collaboration between Hong Kong and the world's top-notch science and research institutions. For instance, the Karolinska Institutet of Sweden had announced to set up in Hong Kong the Karolinska Institutet China-Hong Kong Regenerative Medicine Centre, its first overseas R&D centre, with a focus on life science and regenerative medicine. The Massachusetts Institute of Technology of the United States had also announced the launch of its first overseas "Innovation Node" in Hong Kong in 2016 to pool students, scholars and entrepreneurs from the United States and Hong Kong together. Through attracting top-notch international science and R&D institutions to set up operations in Hong Kong, young people would be inspired to join the force in innovation and entrepreneurship, thereby supplying high-calibre talents for the industry.

30. Mr CHUNG Kwok-pan enquired when the first batch of multi-storey high-efficiency specialized buildings in IEs for promoting "re-industrialization" would be made available for use by the industrial sector. Mr WONG Kwok-hing considered that the Government should allocate new land for the further development of the Hong Kong Science Park and IEs to meet the increasing demand for sites for scientific research.

31. Commissioner for Innovation and Technology ("CIT") advised that pursuant to the revised IE policy, two pilot projects for the construction of multi-storey high-efficiency specialized buildings for promoting smart production

and attracting high value-added technology industries and production processes suitable for Hong Kong would be launched in IEs and the first project was expected to be completed around 2020. The Administration would submit the relevant funding proposal to the Legislative Council in due course. Meanwhile, the HKSTPC was revitalizing the IEs and building up a reserve of floor area available for development through various initiatives, including requesting factory operators to surrender premises which had not been fully utilized. Through these initiatives, HKSTPC could better optimize the use of existing IE sites to meet the future demand of land for R&D activities.

Encouraging midstream and applied research

32. Mr CHUNG Kwok-pan referred to the establishment of the \$2 billion midstream R&D fund aiming to encourage, through investment income, institutions funded by the University Grants Committee ("UGC") to conduct theme-based research in key technology areas. Mr CHUNG expressed concern about the stability of the funding given the fluctuations in investment returns.

33. CIT advised that as the Hong Kong Monetary Authority ("HKMA") would consider the average investment return in the past five to six years as the investment return of the fund, the investment return of a particular year would not have a significant impact on the amount of funds available for financing research projects. According to past experience, the average annual investment return of funds managed by HKMA was about 4% to 5%. While the cash flow of a research project that spanned two to three years was about a few million dollars per year, the projected annual investment return of the fund at about \$80 million to \$100 million should be sufficient to finance quite a number of research projects each year.

34. Mr Charles MOK was concerned that the proposed midstream R&D fund might overlap with some other funding currently provided by UGC and the Research Grants Council ("RGC"). Mr SIN Chung-kai was also concerned that the emphasis being shifted to midstream R&D projects as advocated by the proposed fund might affect the basic research work of local universities.

35. S for IT responded that currently, local universities were not provided with sufficient funding from UGC and RGC to conduct midstream research projects, given that the resource allocation exercise of UGC and RGC mainly looked at factors such as publication of research papers. The proposed midstream R&D fund should enable local universities to conduct theme-based research in key technology areas independently, thus encouraging these institutions to attach importance to commercialization of R&D results.

Innovation and Technology Fund for Better Living

36. Mr Charles MOK enquired whether ITFBL would be managed by ITB. Considering the scope of ITFBL being too wide, Mr MOK suggested that specific themes should be set for the fund to facilitate its management. S for IT responded that the fund would cover a wide range of areas and ITB would invite relevant bureaux to assist in the vetting process as necessary. ITB would be responsible for the management of the fund given the inter-bureaux/departments co-ordination work to be involved.

37. Mr Charles MOK queried whether ITB had sufficient manpower resources to manage the \$500 million ITFBL and asked whether there was any precedent case for a government funding scheme under the direct management of a policy bureau. He was keen to ensure that a proper management structure would be put in place for ITFBL to safeguard the prudent use of public money.

38. PS for IT advised that the Social Innovation and Entrepreneurship Development Fund was managed directly by the Efficiency Unit under the Office of the Chief Secretary for Administration. He added that ITFBL aimed to finance projects that made use of innovative ideas and technologies to improve people's daily lives. Applications would be open to non-governmental organizations, public service organizations and enterprises, and would be vetted by a selection committee comprising representatives from the Government and the industries.

39. Mr SIN Chung-kai advised that ITB should make reference to past recommendations of the Audit Commission on management of government funding schemes when drawing up the vetting criteria and approval procedures of various new funding schemes for promoting I&T development proposed in the 2016 Policy Address. The Administration took note of Mr SIN's view.

Promoting the use of local technology products and services

40. Ms Emily LAU said that in fostering the development of I&T in Hong Kong, the Administration should, apart from providing funding support, promote the adoption of local technology products and services by Government bureaux/departments and the local commercial sector. She enquired about the restrictions posed by the Agreement on Government Procurement ("GPA") under the framework of WTO in respect of procurement of local I&T products and services by the Government.

41. DGTI advised that pursuant to GPA, the HKSAR Government must accord non-discriminatory treatment for procurement activities which exceed specified contract values. He said that restricting such procurement to only local goods, services or suppliers of goods or services would be discriminatory. However,

procurement activities below those prescribed thresholds were not subject to the rules of GPA. S for IT added that in the past two years, the information technology services procured by the Government under the Standing Offer Agreement for Quality Professional Services all came from local technology companies. Given the small market in Hong Kong, the Government aimed to facilitate local R&D projects and their outcomes to enter the global market.

Promoting the development of testing and certification industry

42. Noting that the 2016 Policy Address had mentioned no new measures to assist the development of the testing and certification ("T&C") industry, Mr Martin LIAO enquired whether the Administration would, apart from the measures in Supplement X to CEPA and the Agreement on Achieving Basic Liberalization of Trade in Services in Guangdong ("the Guangdong Agreement"), etc., put in place new measures to facilitate a sustainable development of the T&C industry and further assist Hong Kong T&C establishments in gaining access to the Mainland market given the strong potential demand for T&C services in the Mainland.

43. CIT advised that while T&C establishments could be located in industrial buildings, the leases of many industrial buildings contained user restriction clauses and testing and calibration laboratories would need to apply for a waiver from Lands Department prior to operation. To facilitate the operation of testing and calibration laboratories in industrial buildings, the Administration had decided to forgo the waiver fees that would otherwise be chargeable for issuing waivers to accommodate T&C uses. This new measure was welcomed by the T&C industry and would be implemented in the first quarter of 2016.

44. CIT added that the Mainland had been gradually opening up its market to Hong Kong's T&C industry since the signing of Supplement VII to CEPA in 2010. Under the Guangdong Agreement signed in December 2014 pursuant to the framework of CEPA, products under the China Compulsory Certification ("CCC") System which were processed or manufactured in Guangdong were, for the first time, allowed to be tested in Hong Kong. Testing laboratories in Hong Kong were allowed to cooperate with designated Mainland certification bodies to undertake testing of products in the "audio and visual apparatus" category of the CCC System which were designed and prototyped in Hong Kong, as well as processed or manufactured in Guangdong Province. The scope of testing services that could be provided by Hong Kong testing laboratories in the area of voluntary certification had been expanded to products manufactured or processed in Hong Kong or Mainland. CIT said that the Administration would pursue further expansion of the scope of the testing services that could be undertaken by Hong Kong testing laboratories to cover other kinds of products under the CCC System, as well as further liberalization measures under CEPA in respect of T&C

services.

45. Referring to the findings of the "Study Report on Opportunities for Hong Kong's Testing and Certification Industry" issued by the Hong Kong Productivity Council in October 2014 that three development trends, namely, Smart Technologies, Product Sustainability and Green Transport, might generate future T&C opportunities, Mr Martin LIAO asked about how the Administration would support the sustained development of the T&C industry in the light of the aforesaid findings.

46. CIT advised that the Hong Kong Council for Testing and Certification, which comprised representatives from the T&C industry and users of T&C services, would look into the needs of the industry and see if any specific measures should be put in place to foster the development of the industry.

V. Continuing the funding support for Technology Transfer Offices of local universities, Partner State Key Laboratories and Hong Kong Branches of Chinese National Engineering Research Centres through the Innovation and Technology Fund after 2015-2016

(LC Paper No. CB(1)436/15-16(06) -- Administration's paper on "Continuing the Funding Support for Technology Transfer Offices of Local Universities, Partner State Key Laboratories and Hong Kong Branches of Chinese National Engineering Research Centres through the Innovation and Technology Fund after 2015-16"

LC Paper No. CB(1)436/15-16(07) -- Paper on the funding support for Technology Transfer Offices of local universities, Partner State Key Laboratories, and Hong Kong Branches of Chinese National Engineering Research Centres through the Innovation and Technology Fund prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

47. At the invitation of the Chairman, Deputy Secretary for Innovation and

Technology ("DSIT") briefed members on the Administration's proposal to continue the funding support for each Technology Transfer Office ("TTO") of the six local universities with an annual funding of up to \$4 million, as well as each Partner State Key Laboratory ("Partner SKL") and Hong Kong Branch of Chinese National Engineering Research Centre ("Hong Kong Branch of CNERC") with an annual funding of up to \$5 million, through the Innovation and Technology Fund ("ITF"), from 2016-2017 for three years (i.e. up to 2018-2019). DSIT highlighted in the proposal the enhancement measure to allow each Partner SKL and Hong Kong Branch of CNERC to use a maximum of 30% of the funding on consumables. Details of the proposal were provided in the Administration's paper (LC Paper No. CB(1)436/15-16(06)).

Discussion

Funding support for TTOs, Partner SKLs and Hong Kong Branches of CNERCs

48. Dr CHIANG Lai-wan enquired about the reasons for the difference in the proposed annual funding support for each TTO and Partner SKL, namely \$4 million and \$5 million respectively. DSIT explained that currently, the University Grants Committee ("UGC") provided recurrent funding to the eight universities in Hong Kong for technology transfer work, including the work of TTOs of the six universities. The ITF funding served as an additional support to cover part of the operating expenditure of TTOs, in particular, costs incurred from the initiative to enhance technology transfer capabilities. Similarly, the \$5 million funding support to each Partner SKL and Hong Kong Branch of CNERC covered part of the operating expenditure. For individual research and development ("R&D") in science and technology projects, Partner SKLs and Hong Kong Branches of CNERCs might apply for funding from the Research Grants Council ("RGC") or other relevant schemes under ITF.

49. Ir Dr LO Wai-kwok declared that he was an Honorary Fellow of the Hong Kong University of Science and Technology, Adjunct Professor of the City University of Hong Kong ("CityU") and the non-remunerated Chairman of CityU Enterprises Limited which engaged in technology transfer. Ir Dr LO said that he had no pecuniary interests in the item under discussion. Noting the contribution of some TTOs to the successful commercialization of R&D results, the caliber and excellent R&D level of designated Partner SKLs and Hong Kong Branches of CNERCs, Ir Dr LO supported the Administration's proposal to continue the funding support to TTOs, Partner SKLs and Hong Kong Branches of CNERCs. He further enquired about the approximate amount of the R&D expenditure and overall expenditure of TTOs, Partner SKLs and Hong Kong Branches of CNERCs covered by the ITF funding.

50. DSIT responded that the constitution of ITF funding of the overall expenditure of a TTO ranged from 15% to 60%, depending on individual TTO. For Partner SKLs and Hong Kong Branches of CNERCs, Assistant Commissioner (Policy and Development) ("ACPD") replied that the precise percentage constituted by the ITF funding was not available because R&D projects in these institutions might be funded by RGC funding and ITF funding, etc. In a past exercise, it was found that the annual operating expenditure (excluding R&D expenditure) of a Partner SKL amounted to approximately \$8 million. In view of this, the Innovation and Technology Commission ("ITC") regarded the annual funding of \$5 million to a Partner SKL substantial. DSIT added that the ITF funding for Partner SKLs and Hong Kong Branches of CNERCs was first introduced to cover expenses on R&D-related personnel and equipment. Having regard to the feedback of Partner SKLs and Hong Kong Branches of CNERCs, the Administration proposed to allow a maximum of 30 % of the funding to be used for consumables in experiments to enhance their R&D capabilities. It was believed that this enhanced measure would better suit the needs of Partner SKLs which had already passed the initial establishment stage and no longer need to purchase equipment every year.

51. Mr Charles MOK enquired on whether there was a control mechanism on granting funding support to Partner SKLs and Hong Kong Branches of CNERCs. As for TTOs, Mr MOK enquired on whether the Administration was informed about their use of ITF funding, and whether their performance was assessed and exchange of experience arranged among different TTOs.

52. DCIT advised that a stringent control mechanism on the use of funding was in place. The Finance Offices of hosting universities of Partner SKLs and Hong Kong Branches of CNERCs would certify the claims of expenses and submit them to ITC for verification before funding was released by reimbursement. In the case of TTOs, they were required to submit information to ITC annually, including the expenses on and number of patent applications filed, number of patent applications granted, number of patents licensed, income generated from intellectual property ("IP") rights of patents licensed, and the number of spin-off companies of universities set up as a result of technology transfer outcomes, etc. DCIT added that although the consent of TTOs might be required for disclosing the detailed figures on its work performance, it was noted that there was a rising trend in the number of patent applications filed, number of patents granted and income from IP rights of patents licensed in the universities. The number of spin-off companies from 2012 to 2014 was also encouraging.

53. Mr MA Fung-kwok shared a similar view that the Administration should be more stringent about the use of ITF funding. As the TTOs were financed by public funds, Mr MA was of the view that appropriate guidelines should be put in place on the use of profit generated from commercialization of TTOs to ensure

public resources were properly used.

Assessment mechanism for Partner SKLs and Hong Kong Branches of CNERCs

54. Mr Charles MOK enquired on whether the inclusion or removal of Hong Kong laboratories and research institutions from the lists of Partner SKLs and Hong Kong Branches of CNERCs were solely decided by the State Ministry of Science and Technology ("MOST") while Hong Kong played a passive role. In particular, Mr MOK asked whether an assessment mechanism was in place on the Mainland and/or in Hong Kong to assess the capabilities of Hong Kong laboratories and research institutions before they could be recognized as Partner SKLs or Hong Kong Branches of CNERCs.

55. DCIT advised that while MOST made the final decision on which Hong Kong laboratories and research institutions would be designated as Partner SKLs and Hong Kong Branches of CNERCs, it would first consider the recommendations submitted by an assessment panel in Hong Kong set up with the assistance of RGC. The assessment panel, consisting of local and overseas experts, submitted the recommendations to MOST through ITC. DCIT assured the Panel that the mechanism was well-established. In 2016, at the request of MOST, an interim review would be conducted on Partner SKLs recognized before 2010. Experts recommended by RGC would assess whether the 12 Partner SKLs recognized before 2010 maintained the high academic standard required, and would prepare an assessment report for MOST via ITC.

Guidelines for TTOs of the local universities on the use of profit from commercialization of R&D results

56. While raising no objection to the Administration's proposal to continue the funding support to TTOs, Partner SKLs and Hong Kong Branches of CNERCs, Mr MA Fung-kwok enquired on whether the Administration had any guidelines for TTOs of the six universities regarding the use of profit from commercialization of R&D results such as licensed patents, for example, requiring a certain portion of the profit to be invested back to R&D in the respective universities. Since the ITF funding to TTOs was public fund, he opined that the Administration should be well informed of how the profit from funded projects was used and that the relevant information should be made public.

57. DCIT responded that the use of such profit varied from universities. Universities drew up their own requirements on how much of the profit should be invested back to the universities, the related R&D team and personnel. Noting Mr MA's view, DCIT pointed out that ITC never required the universities to return the profit generated from R&D results to the Government.

Promotion of R&D achievements of Hong Kong

58. Ir Dr LO Wai-kwok and the Chairman observed that Hong Kong laboratories and research institutions with state-level R&D competence were recognized, for example, as Partner SKLs but the public was not aware of the achievement. Ir Dr LO suggested that ITC should coordinate promotion efforts and publicize these achievements beyond the younger generation to the general public.

59. DSIT agreed that the outstanding performance and talents in R&D of Hong Kong should be promoted more widely. DSIT remarked that since the establishment of the Innovation and Technology Bureau ("ITB"), media coverage of Hong Kong's R&D in science and technology had increased, and ITC had also played an active role in promotion matters. She assured the Panel that the Administration would step up promotion efforts in this regard. DCIT supplemented that following the opening of the Academy of Sciences of Hong Kong, local media became more aware of the leading status of the R&D results and scientific personnel of Hong Kong around the world and increased its coverage in the Internet and mass media, etc. He expressed that ITC would strengthen its efforts to promote Hong Kong's R&D achievements and scientists at its annual flagship promotion event, InnoTech Month, and in its daily work as directed by the Secretary for Innovation and Technology.

Elaboration of the roles of TTOs, Partner SKLs and Hong Kong Branches of CNERCs

60. Dr CHIANG Lai-wan sought elaboration of the key difference in the roles of Partner SKLs and Hong Kong Branches of CNERCs. DCIT explained that Partner SKLs engaged in upstream R&D, for example, the Partner SKL at the University of Hong Kong ("HKU") headed by Professor YUEN Kwok-yung, concentrated on basic R&D on infectious diseases. On the other hand, Hong Kong Branches of CNERCs focused on downstream R&D and technology application, for example, the recently announced Hong Kong Branch of CNERC at Hong Kong Polytechnic University, focusing on steel structure. DCIT added that it was exploring collaboration opportunities to apply the R&D results on the high-speed railway projects in the Mainland.

61. Dr CHIANG Lai-wan asked whether there were any examples of TTOs successfully assisted Partner SKLs in technology transfer. ACPD advised that one of the examples was the organic light-emitting diode technologies developed by Partner SKL at HKU, headed by Professor CHE Chi-ming, which were granted Patents and licensed.

Summing up

62. The Chairman concluded that members in general supported the Administration's proposal to continue the funding for TTOs of local universities, Partner SKLs and Hong Kong Branches of CNERCs through ITF. He called on the Administration to note members' view that the Administration should be informed of how the profit from funded R&D projects was used.

VI. Any other business

63. There being no other business, the meeting ended at 4:56 pm.

Council Business Division 1
Legislative Council Secretariat
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