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Panel on Commerce and Industry

Meeting on 17 May 2016

**Background brief on the progress on the implementation of the revised
Industrial Estate Programme**

Purpose

This paper provides background information on the progress on the implementation of the revised Industrial Estate ("IE") Programme. It also summarizes the views and concerns expressed by Members on related subjects in previous discussions.

Background

2. In the 2016 Policy Address, the Chief Executive announced that the Government and the Hong Kong Science and Technology Parks Corporation ("HKSTPC") had revised the IE policy to develop multi-storey, high-efficiency specialized buildings in the IEs to promote smart production and to attract high value-added technology industries and high value-added manufacturing processes, in order to create more quality and diversified employment opportunities.

HKSTPC

3. Established in 2001, HKSTPC is a statutory body wholly-owned by the Government to facilitate the establishment and the nurturing of applied research and development ("R&D") in Hong Kong, and to strengthen Hong Kong's position as a regional technology hub through the provision of one-stop infrastructural support services to technology-based companies and activities in Hong Kong. Currently, HKSTPC operates and manages the Hong Kong

Science Park ("HKSP") at Pak Shek Kok; the three IEs at Tai Po, Yuen Long and Tseung Kwan O, and the InnoCentre¹ at Kowloon Tong.

The development of IE policy

4. The three IEs offer a total of 217 hectares of land for long lease till 2047 to industries that cannot be accommodated in ordinary multi-storey industrial or commercial buildings.

5. In view of the changing nature of the manufacturing sector and the increasing contribution of the service industry, the scope of activities permissible in IEs has been extended to include the technology and service industries, such as broadcasting and telecommunications since 1998, besides the traditional manufacturing industries. With the grant of a site for the first data centre in Tseung Kwan O IE, more data centres and telecommunications projects have been admitted to IEs. To ensure the effective use of valuable land in IEs and to release under-utilized sites to meet demand in the short to medium term, HKSTPC has been actively improving the utilization of IE land through various measures including encouraging grantees that are not fully utilizing their sites to consider starting new projects, surrender the sites or assign under-utilized sites to new grantees.

Review on the utilization and long-term development direction of HKSP and IEs

6. In 2014, in conjunction with HKSTPC, the Government reviewed the utilization and long-term development direction of HKSP and IEs ("Review"). The Review recommended, among other things, that HKSTPC should use the land in the three IEs more efficiently to support science, innovation and technology ("SIT")-based industries which would bring wider benefits to Hong Kong.

7. In the 2015 Policy Agenda, the Government announced that it would implement the recommendations of the Review, including proceeding with the formulation of a new IE policy to enhance the value chain of the innovation and technology industries in Hong Kong and further revitalize the IEs. To this end, the admission criteria and business model of IEs were revised in early 2015.

Revised IE Programme

8. To promote efficient land use in the three IEs to support SIT-based

¹ InnoCentre is tailored for design talents to spur the development of high value-adding design and creative industries.

industries and based on the recommendations of the Review, the Government has modified the admission requirements in favour of the SIT-based industries irrespective of whether such industries can be accommodated in multi-storey buildings. As a result, the entire value chain from R&D, prototyping, product design, production, testing and distribution, administration to marketing and branding will be covered.

9. Moreover, HKSTPC will mainly build and manage specialized multi-storey industrial buildings for rent to multi-users instead of granting the sites to single users for building their own factories. The proposed specialized multi-storey industrial buildings will be designed to meet the needs of selected SIT-based industries². The rental charges (or land premium in the case of land granted on long lease in exceptional cases) will also be delinked from the historical land development costs. Instead, the rental charges will be competitively priced, having regard to the prevailing market conditions and other relevant factors.

10. HKSTPC plans to develop three to four pilot projects on the vacant sites or sites surrendered by the grantees in the three existing IEs in the next few years. To facilitate the pilot projects, HKSTPC has carried out a detailed study on the economic case and relevant financial arrangements for the first two pilot projects in the Tseng Kwan O IE which covered about 3.25 hectares. Having regard to the global trend of re-establishing local manufacturing industries, in particular high-end manufacturing based on artificial intelligence, data analysis and Internet of Things, the Government suggested that the first two pilot projects should target at information and telecommunications technology and advanced manufacturing using robotics technologies. The Government expected that the relevant study would be completed in the first half of 2016.

Views and concerns expressed by Members

11. The Panel on Commerce and Industry discussed the topics related to the development of IEs at its meetings on 19 April and 20 December 2011, 20 January and 21 April 2015, and 19 January 2016.

Introducing industries mix to IEs

12. During the discussion at the meetings on 19 April and 20 December 2011, and 20 January 2015, members raised that it was necessary to review the

² Examples of operations which can be accommodated therein include pharmaceutical manufacturing facilities meeting the latest statutory standards, testing and certification laboratories, prototyping workshops, industrial design laboratories, etc.

operation of IEs and formulate a new IE policy and an industrial policy to revitalize the various IEs so as to dovetail with the changes of the industry base in the last decade or so. At the meeting on 20 January 2015, some members further called on the Administration to relax the development constraints of the three IEs and improve the supporting facilities to adapt to the changing industries mix.

13. At the meeting on 19 April 2011, the Administration advised that the scope of activities permissible in IEs was extended in 1998 to include technology services sectors, such as broadcasting and telecommunications. The site granted for the first data centre in Tseung Kwan O IE in 2005 was an example to show that the Administration had taken into account the changing nature of the manufacturing sector. Furthermore, at the meeting on 20 December 2011, the Administration assured members that HKSTPC would also place more emphasis on new businesses such as high-end data centres, pharmaceutical and other clean industries. At the policy briefing cum meeting on 19 January 2016, the Administration advised that to complement "re-industrialization", the Government would develop multi-storey high-efficiency specialized buildings in IEs to promote smart production and attract high value-added technology industries and production processes suitable for Hong Kong.

Improving land utilization and facilities in IEs

14. Members expressed concern about land utilization in IEs at the meetings on 19 April 2011 and 21 April 2015. Noting that the overall maximum plot ratio of 2.5 in IEs was not fully utilized, some members enquired about the land area available for the development of the proposed specialized multi-storey industrial buildings and the implementation timeframe at the meeting on 21 April 2015.

15. The Administration responded at the meetings on 19 April 2011 that grantees of IEs not fully utilizing their sites were encouraged to consider new projects, surrender the sites or look for new grantees who met the prevailing admission criteria for the related sites; the development of vacant sites in the IEs, including those reserved by government departments, would also be reviewed. The Administration further advised at the meeting on 21 April 2015 that for the land area available for the specialized multi-storey industrial buildings, five vacant sites in the three IEs would provide a total land area of about 8 hectares for such development. Furthermore, four pilot projects had been planned for the IEs, involving a total gross floor area of about 2,000,000 square feet. The new floor area in the first completed project was expected to be available after year 2020. To achieve a cluster effect, each specialized multi-storey industrial building would be designed for letting to companies of different selected

science, Innovation and Technology based sectors.

16. To cater for the varied needs of different industries and accommodate companies of different sizes, some members suggested that the Administration should allow the construction of stand-alone factories by tenants of IEs having regard to their specific needs of industries at the meeting on 21 April 2015. Complementary software and hardware facilities should also be provided for in the proposed multi-storey industrial buildings in the IEs. The Administration advised that pursuant to the revised IE Programme, HKSTPC would mainly build and manage specialized multi-storey industrial buildings for rent to multi-users instead of granting the sites to single users to build their own factories in the future. On the other hand, HKSTPC would consider granting sites on long lease to meritorious applicants for building standalone factories in exceptional cases with strong justifications and needs.

Admission criteria to IEs

17. At the meeting on 20 December 2011, some members relayed that recyclers had difficulty in applying for admission to the IEs while other members enquired whether any support or preferential measures were in place to facilitate local small and medium enterprises ("SMEs") to be admitted into the existing or new IEs. The Administration replied that the three IEs had already offered developed land for lease to projects involving green production of biodiesel, recycling or metal and treatment of plastic waste etc. With regards assisting local SMEs' admission to the IEs, the Administration advised that the three IEs offered developed land for lease to manufacturing and service industries with new or improved technology, and that local pharmaceutical or food manufacturing enterprises were admitted to the IEs. At members' request, the Administration provided the number of green technology projects, as well as the number of local enterprises, in particular SMEs, operating in the three IEs at that time vide LC Paper No. CB(1)897/11-12(01).

18. On the development of data centres in Hong Kong, some members urged the Administration to review the admission criteria in relation to restriction on subletting on applications for setting up commercial data centres in IEs having regard to the unique operation model of data centres at the meeting on 19 April 2011. The Administration replied that HKSTPC had been taking a relaxed view on data centre operations and applications from high-end data centre projects would be considered by HKSTPC in accordance with its admission criteria.

Council meetings

19. At the Council meetings on 24 October 2012, Dr Hon CHIANG Lai-wan

asked an oral question about the number of pharmaceutical manufacturers which had set up production plants in individual IEs, the percentages of such numbers in the total numbers of companies in the IEs concerned, as well as how the Administration would enhance the development of the pharmaceutical manufacturing industry. The Administration replied that there were eight licensed manufacturers of western drugs and six licensed manufacturers of proprietary Chinese medicines had set up or plan to set up a total of 22 manufacturing plants in Tai Po IE and Yuen Long IE, accounting for 13% of the total number of manufacturing plants in the three IEs. The Administration would, among other things, continue to review the existing operation of HKSP and IEs to see how it could support and facilitate the development of the pharmaceutical manufacturing industry.

20. At the Council meeting on 19 March 2014, Hon CHUNG Kwok-pan moved a motion on "Encouraging the return of the industrial sector for development to make Hong Kong's industries more diversified". Members called upon the Administration to introduce concrete measures and support policies, including revitalizing the various IEs, to encourage the return of the industrial sector for development in Hong Kong. The motion as amended by Hon SIN Chung-kai, Hon Kenneth LEUNG and Hon CHAN Yuen-han was passed.

21. At the Council meeting on 11 February 2015, Hon Frederick FUNG asked a written question about whether the Administration had reviewed if the processing of applications for setting up data centres in IEs was sufficiently transparent, and the monitoring mechanism put in place to prevent the operators of data centres in IEs from letting or sub-letting the lands granted to them.

22. The Administration replied that applications for data centres had to meet the basic admission criteria to IEs. All of the applicants' proposed projects were assessed by HKSTPC staff and then submitted to the Business Development and Admission Committee under the Board of HKSTPC for approval. Information on vacant sites open for application and the admission criteria were available at HKSTPC's website. In relation to the investigation of letting and subletting of lands granted, HKSTPC as the management authority of IEs conducted site inspection of the premises on a regular basis. In case of breach of the terms and conditions of the lease agreement by a grantee, HKSTPC would take actions, such as charging an additional premium and demanding the grantee to cease the breach, HKSTPC may also initiate the re-entry procedure according to the lease agreement.

23. At the Council meeting on 18 March 2015, Ir Dr Hon LO Wai-ki moved a motion on "Formulating a long-term and comprehensive industrial policy". Members called upon the Administration to revitalize the various IEs,

so as to induce the return of the industrial sector for development and to reserve more lands for developing data centres to develop Hong Kong into a data hub of cloud computing in Asia. The motion as amended by Hon MA Fung-kwok, Hon YIU Si-wing, Hon Kenneth LEUNG, Hon Charles MOK and Hon SIN Chung-kai was passed.

24. At the Council meeting on 25 March 2015, Hon Frederick FUNG asked an oral question on the details of the lease-breaching cases of data centres in IEs in the past three years, how HKSTPC could avoid conflict of roles and interests as it was both the authority responsible for attracting and monitoring the investors to IEs, as well as how to ensure a fair playing field for the data centres operating inside and outside the IEs as the premiums of the former were below market value.

25. The Administration replied that HKSTPC found only one suspected case of letting or subletting the IE premises to a third party involved the operation of a data centre in the past three years. Regarding the avoidance of conflict of roles, the Administration advised that HKSTPC provided land suitable for special-purpose manufacturing and service industries to respond to the changing needs of local industries. To this end, fair and just grant conditions and a transparent premium policy were developed and applicable to all industries in the IEs. Besides, a stringent monitoring mechanism was in place for the IEs, and the management also reported to the Board of Directors appointed by the Government on its lease enforcement actions. To provide a level playing field for data centres, the Administration implemented facilitation measures to promote the development of data centres which were applicable to all types and sizes of data centres.

26. At the Council meeting on 2 December 2015, Hon Charles MOK asked an oral question about the total floor area that could be provided by IEs managed by HKSTPC for the development of high-tier data centres in the next five years. The Administration replied that at present, 12 sites with a total of about 19 hectares of land in the Tai Po and Tseung Kwan O IEs were designated for the development of high-tier data centres, providing a floor area of over 300,000 square metre. Upon completion of several data centres in Tseung Kwan O, Kwai Chung and Tsuen Wan (including IEs and those provided by the private sector) in the next two years, the gross floor area for data centre development in Hong Kong would rise to 660,000 square metre.

27. Details of the relevant Council questions and motions are given in the hyperlink in the **Appendix**.

Latest position

28. The Administration will brief the Panel on 17 May 2016 on the development plan and proposed financing arrangements of the specialized multi-storey industrial buildings under the revised IE programme. Subject to Members' agreement, the Administration will seek approval from the Finance Committee.

Relevant papers

29. A list of relevant papers is shown in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
13 May 2016

List of relevant papers

Date of meeting	Meeting	Paper
19/4/2011	Panel on Commerce and Industry	<p>Administration's paper on "Latest developments of Industrial Estates" (LC Paper No. CB(1)1893/10-11(03))</p> <p>Background brief on the three Industrial Estates operated and managed by the Hong Kong Science and Technology Parks Corporation prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1893/10-11(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)2403/10-11)</p>
20/12/2011	Panel on Commerce and Industry	<p>Administration's paper on "Latest developments of Industrial Estates" (LC Paper No. CB(1)624/11-12(03))</p> <p>Updated background brief on the three Industrial Estates operated and managed by the Hong Kong Science and Technology Parks Corporation prepared by the Legislative Council Secretariat (LC Paper No. CB(1)624/11-12(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)1039/11-12)</p> <p>Follow-up paper (LC Paper No. CB(1)897/11-12(01))</p>
24/10/2012	Council	<p>Question No. 6 on "Development of the pharmaceutical industry of Hong Kong" raised by Dr Hon CHIANG Lai-wan (Hansard) (Page 587-597)</p>

Date of meeting	Meeting	Paper
19/3/2014	Council	Motion on "Encouraging the return of the industrial sector for development to make Hong Kong's industries more diversified" moved by Hon CHUNG Kwok-pan (Wording of the motion passed) (Progress report)
20/1/2015	Panel on Commerce and Industry	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(03)) Minutes of meeting (LC Paper No. CB(1)582/14-15)
11/2/2015	Council	Question No. 12 on "Development of data centres in Hong Kong" raised by Hon Frederick FUNG (Hansard) (Page 6080-6084)
18/3/2015	Council	Motion on "Formulating a long-term and comprehensive industrial policy" moved by Ir Dr Hon LO Wai-ki (Wording of the motion passed) (Progress report)
25/3/2015	Council	Question No. 1 on "Development of data centres in Industrial Estates" raised by Hon Frederick FUNG (Hansard) (Page 7880-7890)

Date of meeting	Meeting	Paper
21/4/2015	Panel on Commerce and Industry	<p>Administration's paper on "The latest developments of the Hong Kong Science and Technology Parks Corporation" (LC Paper No. CB(1)743/14-15(05))</p> <p>Background brief on "The development of the Hong Kong Science and Technology Parks Corporation, the Hong Kong Science Park and the three Industrial Estates" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)743/14-15(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)969/14-15)</p>
2/12/2015	Council	<p>Question No. 6 on "Development of high-tier data centres and high-end manufacturing industries" raised by Hon Charles MOK (Hansard) (Page 2420-2430)</p>
15/12/2015	Panel on Commerce and Industry	<p>Administration's paper on "Further development of Hong Kong Science Park" (LC Paper no. CB(1)279/15-16(05))</p> <p>Background brief on "The development of the Hong Kong Science Parks " prepared by the Legislative Council Secretariat (LC Paper no. CB(1)279/15-16(06))</p> <p>Minutes of meeting (LC Paper no. CB(1)548/15-16)</p>

Date of meeting	Meeting	Paper
19/1/2016	Panel on Commerce and Industry	<p>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(03))</p> <p>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(04))</p> <p>Administration's paper on "2016 Policy Address – policy initiatives of Innovation and Technology Bureau" (LC Paper No. CB(1)436/15-16(05))</p> <p>Minutes of meeting (LC Paper No. CB(1)665/15-16)</p>