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Panel on Information Technology and Broadcasting

Meeting on 13 February 2017

Updated background brief on Hong Kong Design Centre

Purpose

This paper provides background information on the Government's support for the operation of Hong Kong Design Centre ("HKDC") and a summary of the views and concerns expressed by members of the Panel on Information Technology and Broadcasting ("the ITB Panel") during previous discussions on the work of HKDC.

Background

2. HKDC is a non-profit making infrastructure organization¹ established in 2001 to further the development of design. It is a company limited by guarantee, with the Hong Kong Designers Association, Chartered Society of Designers, Hong Kong, Interior Design Association Hong Kong, Hong Kong Fashion Designers Association, and the Hong Kong Federation of Design Associations as members. The objectives of HKDC are to, among other things, promote design as a value-added activity and integration of design into mainstream business processes, which are in line with the Government's policy on the promotion of design and innovation. HKDC has since its inception been the Government's main partner in promoting design. To support HKDC's initial operation, the Government provided a one-off funding of \$10 million to HKDC as seed money in 2001. The Finance Committee ("FC") approved in June 2004 a funding commitment of

¹ Broadly speaking, a non-profit making infrastructure organization refers to one that provides capacity building, technical assistance, consulting and training, etc. for the respective sector.

\$250 million for the setting up of the DesignSmart Initiative² ("DSI") under which \$45 million was set aside for supporting the operation of HKDC.

3. On 11 October 2006, the Chief Executive announced in his 2006-2007 Policy Address that the Government would earmark \$100 million over five years for HKDC to further assist the trades and industries in Hong Kong to make full use of their designs and build their brand names. Following consultation with the Panel on Commerce and Industry, the Administration submitted a funding proposal of \$100 million to support the operation of HKDC over five years to promote the importance of design and innovation. The proposal was approved by FC on 25 May 2007.

4. On 9 February 2009, the Administration presented a proposal to the ITB Panel on the setting up of Create Hong Kong ("CreateHK") as a dedicated office for creative industries. CreateHK was tasked to coordinate Government policies and efforts regarding creative industries, focus Government's resources catering for the promotion and speeding up of the development of creative industries in Hong Kong, and work closely with the trade to boost the development of creative industries. In connection with these objectives, CreateHK would be responsible for overseeing the operation of HKDC. Accordingly, the Administration proposed to transfer the \$100 million non-recurrent commitment to CreateHK for supporting the work of HKDC. The ITB Panel was supportive of the proposal. On 1 June 2009, CreateHK was formally established.

5. Following consultation with the ITB Panel on 14 November 2011, the Administration sought FC's approval to increase the financial commitment by \$70 million to support the operation of HKDC for three years from 1 July 2012 to 30 June 2015, to create a new commitment of \$37.5 million to provide dedicated funding to enable HKDC to organize the Business of Design Week ("BODW") and HKDC Awards, and to create a new commitment of \$26.25 million to provide funding support for HKDC to operate the Design Incubation Programme³ ("DIP") from 1 May 2012. The funding proposal was approved by FC on 13 April 2012.

² DesignSmart Initiative ("DSI") aimed at supporting and promoting design and related activities that offer industries and businesses the ability to differentiate themselves from their competitors, add value to their products or services, and increase their economic competitiveness. DSI has subsequently migrated to the \$600 million CreateSmart Initiative which aims at providing financial support to initiatives that are conducive to the development and promotion of creative industries.

³ The Design Incubation Programme aims at nurturing design start-ups to help build up a design talent pool and design entrepreneurship in Hong Kong. It offers funding support and other support services to incubatees, with a view to helping them meet the challenges during the early and critical stages of development.

6. On 9 February 2015, the Administration briefed members at the ITB Panel meeting on the proposal to continue providing funding support of \$80 million to HKDC to support its basic operation from July 2015 to March 2019. The Administration informed the ITB Panel that HKDC had indicated that it would not be able to achieve self-financing when the time-limited funding lapsed in end June 2015. The proposed funding would sustain the basic operation of HKDC. Meanwhile, the Administration would commence a review in 2016 on the financial position and long-term funding arrangement for HKDC. The majority of ITB Panel members expressed support for the proposal to continue to provide time-limited funding to HKDC. The funding proposal was included in the draft 2015-2016 Estimates for consideration by the Legislative Council ("LegCo") in the context of the Appropriation Bill and was approved at the Council meeting on 28 May 2015.

7. On 11 January 2016, the Administration briefed members at the ITB Panel meeting on the proposal to provide funding support of \$18.6 million to HKDC for supporting the implementation of the specific measures proposed by the Government to take forward the recommendations of the Economic Development Commission on promoting the development of fashion industry. The majority of ITB Panel members expressed support for the funding proposal. The funding proposal was included in the draft 2016-2017 Estimates for consideration by the LegCo in the context of the Appropriation Bill 2016 and was approved at the Council meeting on 13 May 2016.

Previous discussions

Panel on Information Technology and Broadcasting

Funding proposal of the Hong Kong Design Centre

8. At the ITB Panel meeting held on 11 January 2016, some members enquired about the reason(s) for another funding application of \$18.6 million for supporting the implementation of the fashion initiatives by HKDC for the period from April 2016 to March 2019, when an amount of \$80 million had been approved earlier in May 2015 to support the basic operation of HKDC for the period from July 2015 to March 2019. The Administration advised that pursuant to the deliberations made by the Advisory Group on Implementation of Fashion Initiatives, which was set up in July 2015, the fashion initiatives would mainly cover a dedicated incubation programme for up-and-coming fashion design start-ups, technical training and support for

graduates and practising designers of the fashion disciplines, and strengthened promotion for local fashion designers and brands. The Government aimed at using these initiatives to promote local fashion design both locally and to overseas countries, and nurture fashion designpreneurs in Hong Kong.

Job opportunities and development strategy for design industry

9. Some members enquired whether the new fashion initiatives would increase investment in, and assist in, the development of the fashion industry, such as creating job opportunities for the industry. The Administration advised that from 2005 to 2013, the value added of the design domain had increased more than double. On job creation, job opportunities had increased by 57% while the number of design organizations had increased from 2 790 to 5 750. With the increasing trend in the past few years, the proposed measures should increase investment in and assist in the development of the fashion industry.

10. Some other members enquired about the development strategy of the design industry. The Administration advised that HKDC organized annual signature events such as BODW which had grown from a small-scale event to the biggest design event in Asia. The week-long programme comprised conferences, forums, exhibitions, design awards presentation, outreach programmes, networking events, business matching activities, etc. It served as a knowledge sharing and networking platform on design, brands and innovation.

Nurturing talents and design start-ups

11. Noting that Barcelona was BODW 2015's first-ever partner city, some members enquired whether other partner cities would be selected for BODW in future and the area(s) in which partner cities would assist Hong Kong in promoting its design business. They also enquired about the number of participants enrolled in the four modules under the Institute of Design Knowledge ("IDK") programme who had subsequently joined the design industry, and the contributions made by the civil servants who had participated in the training workshops of the Civil Service Training and Development Institute during the reporting period.

12. The Administration advised that Barcelona was famous for its harbour re-planning and re-activation work. BODW 2016's partner city would be Chicago. Participants enrolled in the four modules under the IDK programme were those who had already joined the design industry and they

attended the programme for training and enhancement purposes. The Administration provided further information after the meeting on Barcelona and contributions made by the civil servants who had participated in the workshops of the Civil Service Training and Development Institute, which is in paragraphs (a) and (b) of the **Appendix**.

13. Some other members enquired about the measures taken by the Administration to support designpreneurs who were tenants of the Police Married Quarters ("PMQ") with financial difficulties in conducting their businesses. The Administration advised that tenants of PMQ could broadly be classified into three types, namely, retail shops selling design products, designer shops selling design services such as interior design, architecture and brand name design, and food and beverages ("f&b") establishments. Designer shops selling design services and f&b establishments had been operating well but small retail shops selling design products generally encountered difficulties as the small quantity production had rendered their products less price competitive in the market.

14. Some members further enquired about the number of designer tenants at the PMQ on commencement of its operation and the current number of designer tenants. They also enquired about information on the rent received by PMQ when compared to those received by shopping malls in the private sector. The Administration advised that PMQ was not operated by the Government but a non-profit making organization. According to the PMQ operator, most of the existing tenants had chosen to renew their tenancies and stay in PMQ. The Administration provided further information after the meeting relating to the tenants and rent of PMQ, which is in paragraphs (c) and (d) of the **Appendix** .

15. At the ITB Panel meeting held on 12 December 2016, the Administration briefed members on the overview of the manpower situation of creative industries. A member requested the Administration to provide information on the number of creative vacancies available for the fashion design industry as shown in the survey completed by CreateHK in 2016 on the manpower demand of creative industries. Reply from the Administration is being awaited.

Latest position

16. The Administration and HKDC representatives will brief the ITB Panel on 13 February 2017 on the progress report of the work of HKDC.

Relevant papers

17. A list of the relevant papers with their hyperlinks is at:
http://www.legco.gov.hk/yr15-16/english/panels/itb/papers/itb_g.htm

Council Business Division 4
Legislative Council Secretariat
8 February 2017

**Progress report and funding proposal on the work of the
Hong Kong Design Centre**

At the meeting of the Legislative Council Panel on Information Technology and Broadcasting held on 11 January 2016, Members requested the Government to provide information:

- (a) whether there would be other partner cities for the Business of Design Week in future and the area(s) in which Barcelona and other partner cities would assist Hong Kong in the promotion of its design business;
- (b) contributions expected of the 108 civil servants who had participated in the training workshops of the Civil Service Training and Development Institute during the reporting period;
- (c) the number of designer tenants at the Police Married Quarters ("PMQ") on commencement of its operation and the current number of designer tenants based on updated information to be provided by the management of PMQ in mid 2016; and
- (d) the rent received by PMQ when compared to those received by shopping malls in the private sector.

The requested information is set out below –

- (a) Since its inception in 2002, Business of Design Week ("BODW"), the annual flagship programme of the Hong Kong Design Centre has grown into Asia's leading annual event celebrating design, innovation and global brands. Since 2005, BODW has collaborated with a partner country (or partner countries) or a partner city each year. Scandinavian countries (2005), the United Kingdom (2006), Italy (2007), The Netherlands (2008), France (2009), Japan (2010), Germany (2011), Denmark (2012), Belgium (2013) and Sweden (2014) and Barcelona (2015) were the previous partners. Chicago will be the partner city for 2016.

As design impacts every facet of our city, economy, culture and living, the partner countries/cities or potential ones of BODW tend to be those which appreciate design as the core integral solution for future city vibes, business innovations and citizen well-being. BODW would have a broad theme each year which often features the design wonders of the partner of that year. The partner of the year would take up a certain part of the BODW forum programme while the rest would be enriched by previous and potential partners. For instance, when Barcelona was the partner city of BODW 2015, the latter carried the broad theme of "Design. Cities. Future" with a strong line-up of speakers from Barcelona and all around the world to inspire the participants on how good design helps create cities of the future.

BODW helps strengthen Hong Kong's trade and economic relationships with key players in the global design and business communities. In the past few years, BODW and its concurrent events annually attracted over 100 000 participants, including the trade delegations formed by the partner countries/cities as well as design and business professionals who would like to tap the international network offered by the BODW. BODW brings to Hong Kong design masters and influential business figures who share their ideas and insight, as well as the latest products and innovations for showcasing to local design professionals, business communities and students. Hong Kong as a whole has benefitted from the resulting business development and networking opportunities as well as international limelight and publicity mileages brought by the BODW.

- (b) For Hong Kong to move up the value chain as a creative economy, we need to nurture a creative workforce both in the business community and within the Government. The objective of these training workshops is to broaden civil servants' perspectives in service innovation. They aim to cultivate human-centred design mindset and develop participants' understanding of design thinking. Participants' general feedback was that the training was relevant to their work, and had enriched their knowledge in design thinking and its application in public service. After attending the workshops, participants believed that they were able to apply what they have learnt in the training workshops to the workplace as appropriate to enhance service delivery.

- (c) Based on the latest information provided by the PMQ Management Company Limited ("PMQMC"), the number of tenants at PMQ on commencement of PMQ's operation in April 2014 was 106 while the number of tenants as at end March 2016 is 123. The overall occupancy rate of PMQ has risen from 84.8% to 98.4% from April 2014 to end March 2016. The first batch of studio tenancies of the PMQ will expire by the end of April 2016. PMQMC is negotiating with the tenants concerned on tenancy renewals.
- (d) PMQ is a creative industry hub for nurturing local designers. It creates a business platform for designers to connect their creativity to the market, which can be in the format of business-to-business, business-to-consumer, and online-to-offline.

In order to provide tenants with stable and affordable rental terms, PMQMC sets the base rent for studio units on 2/F or above with reference to the average monthly rental for grade B offices in Central and Sheung Wan published by the Rating and Valuation Department in the first quarter of 2012. The standard unit size of the studio units is about 400 sq. ft. with the base rent set at \$18,000 per month (management fees and water and electricity charges excluded). Green or comparatively less established designers are offered a 20% to 50% discount. The actual discount is determined on an individual basis.

PMQMC determines management fees as well as utilities charges with reference to the market practice. It also provides subsidies on the management fees (55%) and utilities charges (42%) for eligible studio units. Tenants of the studio units on G/F and 1/F and the commercial units are required to pay the market rent, and are not entitled to concessions on management fees as well as utilities charges.