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Report of the Panel on Commerce and Industry for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Commerce and Industry ("the Panel") during the 2019-2020 session of the Legislative Council. It will be tabled at the Council meeting of 15 July 2020 in accordance with Rule 77(14) of the Rules of Procedure.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining Government policies and issues of public concern relating to commerce and industry. The terms of reference of the Panel are in **Appendix I**.

3. The Panel comprises 20 members, with Hon Jimmy NG Wing-ka and Hon Alvin YEUNG elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Economic impact of the social incidents and changes to external environment on Hong Kong

4. Members raised grave concern about the overall impact on Hong Kong economy arising from the ongoing protests¹ and unstable external

¹ Since June 2019, Hong Kong has seen a series of protests, as triggered by the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill 2019. The bill was formally withdrawn by the Government on 23 October 2019.

environment from mid 2019 onwards, as well as the passage of the Hong Kong Human Rights and Democracy Act of 2019 ("Hong Kong Act") by the United States ("US") Congress.² In this regard, the Panel held a joint meeting on 6 December 2019 with the Panel on Economic Development, Panel on Financial Affairs, and Panel on Information Technology and Broadcasting to discuss with the Administration the major areas of members' concern and the corresponding measures taken by the Administration to support local enterprises and Hong Kong people.

Overall economic situation

5. Members urged the Administration to conduct stress tests on the overall economic situation of Hong Kong should Hong Kong face certain worst-case scenarios, such as the persistence of violent protests for over one year; the outbreak of a global trade war; the ongoing decline in Hong Kong's external trade volume; and the loss of Hong Kong's status as a separate customs territory. Members were worried that facing such worst-case scenarios, Hong Kong's economy would be dragged into a downward spiral with consecutive years of negative growth and rising unemployment. Members also urged the Administration to assess the possibility of the US Government restricting or even barring the clearing and settlement of foreign exchange transactions between the US and Hong Kong by virtue of the Hong Kong Act, which could render US-Hong Kong trade impossible. They were concerned about the actions to be taken by the Administration to maintain the Linked Exchange Rate System ("LERS").

6. The Administration advised that financial regulators had been conducting stress tests to see if a smooth and orderly functioning of different facets of Hong Kong's financial system would continue. The Government Economist had been conducting scenario analyses and dynamic assessment on the impacts on Hong Kong's economy in extreme conditions. Although it was estimated that there might be unavoidable fiscal budget deficits in the financial years of 2019-2020 and 2020-2021, the Administration was of the view that such deficits would not affect Hong Kong's fiscal sustainability given the strength of Hong Kong's robust fiscal reserves.

7. As for LERS, the Administration advised that LERS was Hong Kong's internal affairs, and the US authorities' approval was not required for the peg of Hong Kong dollars to the US dollars. LERS had been

² The President of the United States signed the Hong Kong Human Rights and Democracy Act of 2019 into law on 27 November 2019.

implemented in Hong Kong since 1983 and was the cornerstone of Hong Kong's monetary and financial stability. The Administration considered LERS had been operating effectively and had no intention to change it. In the past, measures to restrict the clearing and settlement of foreign exchange transactions between the US and some other countries imposed by the US Government were mainly applied to individual organizations. As US-funded banks were heavily involved in clearing and settlement of foreign exchange transactions between the US and Hong Kong, a great deal of US commercial interests were at stake.

Measures to support enterprises and Hong Kong people

8. Whilst expressing support for the Administration's four packages of helping measures which had already costed HK\$25 billion to support enterprises, especially small and medium enterprises ("SMEs") and safeguard jobs for Hong Kong people, members raised the following areas of concern:

- (a) worrying that the prolonged social incidents would widen the budget deficit and provide opportunities for international market manipulators to launch speculative attacks against Hong Kong's currency and financial markets;
- (b) urging the Administration to introduce dedicated measures to mitigate the impact of the social incidents on the cultural and creative industries;
- (c) urging the Administration to strengthen overseas tourism promotion effort to allay the concern of local tourism industry which had been hard hit by the social incidents with both inbound and outbound tourists figures plummeted;
- (d) urging the Administration to look into the grave concern raised by SMEs that banks were barred from approving loans to them under the SME Loan Guarantee Scheme due to the stringent requirements on the repayment ability of the borrowers imposed by the Hong Kong Monetary Authority ("HKMA"); and
- (e) expressing disappointment about the high threshold and complicated procedures for the helping measure to allow individual taxpayers and enterprises to settle tax bill by instalments, in that the taxpayer or enterprise concerned had

to submit an application with documentary proof of financial situation for the past three months, and propose an instalment plan.

The United States' Hong Kong Human Rights and Democracy Act

9. Members were concerned about the impact of the Hong Kong Act on the development of the innovation and technology ("I&T") industry in Hong Kong, and the Administration's measures to mitigate the problem. Members also expressed concern about Hong Kong being considered by the US, European countries and Japan as a "white glove" for illicit transfer of sensitive high technologies to the Mainland. The Administration was requested to step up protection of intellectual property rights. Noting that Hong Kong had only signed about 40 Comprehensive Avoidance of Double Taxation Arrangements with other countries so far, some members urged the Administration to speed up the progress of entering into such arrangements with other countries.

10. Some members urged the Administration to take serious note of the views expressed by Hong Kong people on human rights and freedom. They enquired about the Administration's actions taken to maintain the confidence of the international community in still seeing Hong Kong as a city respecting human rights and freedom. Some other members felt strongly about certain political figures trying hard to lobby foreign governments to impose sanctions on Hong Kong and providing misleading information to a number of overseas parliaments and urging such foreign governments to enact legislation similar to the Hong Kong Act to sanction Hong Kong. They enquired what lobbying efforts would the Administration make in response, and what was the Administration's assessment of the actual impact of the Hong Kong Act on Hong Kong.

11. The Administration advised that it had been making clear to the international community that Hong Kong's unique status was conferred by the Basic Law ("BL") rather than granted unilaterally by any other country, and such a status was well recognized and respected by the international community. The Administration would make clarifications to the consulates general and trade associations of relevant countries in Hong Kong on the latest situation of Hong Kong, and would make such clarifications through relevant overseas Hong Kong Economic and Trade Offices ("ETOs") and during overseas visits to such countries.

12. The Administration also advised that notwithstanding the enactment of the Hong Kong Act by the US, the unique status of Hong Kong as a separate customs territory would remain unchanged, as it was

conferred upon Hong Kong by virtue of BL 116 and 151 rather than granted by any other country. The enactment of the Hong Kong Act was neither necessary nor warranted, and the Hong Kong Act unnecessarily interfered in the internal affairs of Hong Kong and would not help ease Hong Kong's situation. In the Administration's view, it might inevitably damage the mutually beneficial relationship between Hong Kong and the US.

Support to small and medium enterprises

13. Hong Kong economy has been facing significant downward pressure, as reflected by the contraction in gross domestic product ("GDP") in the last four consecutive quarters including a record level decline of 8.9% in real terms in the first quarter of 2020 from a year earlier. SMEs are hardest hit by this grave economic situation, brought about by the slowdown of the global economy arising from the trade conflict initiated by the US and the social unrest. The outbreak of the Coronavirus Disease 2019 ("COVID-19") has further dealt a severe blow to the economic activities and business sentiment in Hong Kong. Many enterprises suffer from a further plunge in business turnover, resulting in liquidity problem. Noting that there had been growing demands from the business sector that the Administration should introduce swift and effective measures to assist the trade, the Panel discussed with the Administration at the regular meetings held in October 2019, March and May 2020 the several rounds of enhanced measures proposed by the Administration to help local enterprises, particularly SMEs, cope with challenges such as shortage of liquidity, lack of resources for business promotion and export credit risk.

14. At the October regular meeting, the Panel supported in principle the Administration's proposed measures to support enterprises and safeguard jobs, including:

- (a) further injecting HK\$1 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund") thereby doubling the cumulative funding ceiling per enterprise under its Mainland Programme to HK\$2 million;
- (b) injecting HK\$1 billion into the SME Export Marketing Fund ("EMF") thereby doubling the cumulative funding ceiling per enterprise to HK\$800,000; and
- (c) introducing a new 90% Guarantee Product under the SME Financing Guarantee Scheme ("SFGS") to help smaller-sized enterprises and businesses with relatively less

operating experience and professionals seeking to set up their own practices.

15. Members noted that the maximum amount of loans each successful applicant could obtain loan guarantee under the new 90% guarantee product (i.e. up to HK\$6 million at any point in time) was far below from that of the existing 80% guarantee product (i.e. up to HK\$15 million), and enquired about the reasons for such differences. Some members urged the Administration to consider providing 100% guarantee for approved commercial loans so that the participating lending institutions ("PLIs") would no longer be subject to any default risks and could greatly reduce the loan interest rates for SMEs to obtain financial assistance.

16. The Administration advised that with effect from November 2018, the Government halved the annual guarantee fee rate, increased the maximum facility amount to HK\$15 million and lengthened the maximum guarantee period to seven years for the 80% guarantee product to further relieve SMEs' financing burden. Yet, some smaller-sized enterprises and enterprises with less operating experience might not be eligible for the 80% guarantee product. In order to bridge the gap, the proposed 90% guarantee product would lift the requirements on the one year's minimum operation of applicants and the submission of full audited financial statements.

17. Noting that SMEs often found it difficult to choose the most suitable funding scheme to apply from a series of similar funding schemes, members urged the Administration to help individual SMEs identify funding schemes most suitable to their business needs for application. Members suggested that the Administration should consider consolidating funding schemes with similar ambits and were administered by different government departments/organizations, lowering the application thresholds for the consolidated schemes and simplifying relevant application procedures so as to encourage SMEs to make applications.

18. At the regular meeting held in March 2020, the Panel supported the Administration's funding proposal to introduce a new 100% loan guarantee product under SFGS³ to further enhance the assistance to SMEs to help them tide over the COVID-19 outbreak, thereby minimizing business closures and layoffs.

³ The relevant funding proposal was approved by the Finance Committee ("FC") on 20 March 2020.

19. Noting that the sports, performing arts, culture and publication sectors were hard hit by the COVID-19 outbreak, some members enquired whether arts institutions such as music stores, dance and drawing studios, and sports institutions including gyms and martial arts training centres, as well as not-for-profit arts and recreational organizations would be eligible to apply for loans under the Special 100% Guarantee Product.

20. The Administration advised that the Special 100% Guarantee Product was targeted at SMEs of all sectors. Enterprises holding a valid Business Registration Certificate for at least three months by end December 2019, regardless of their business sectors, were welcome to apply. The maximum amount of loan per Business Registration Certificate (i.e. per business entity) under the Special 100% Guarantee Product was up to the total amount of employee wages and rents for six months per enterprise, or HK\$2 million at most.

21. Some members expressed concern as to whether under the Special 100% Guarantee Product, PLIs would still adopt stringent loan vetting and approval criteria as they had in the past under the 80% and 90% Guarantee Products.

22. The Administration explained that unlike the 80% and 90% Guarantee Products, under the Special 100% Guarantee Product, PLIs would no longer be subject to any default risks as the risk exposure would be totally borne by the Hong Kong Mortgage Corporation Limited ("HKMC"). The target recipients of loans were SMEs with genuine need, i.e. those who had suffered substantial decline in sales turnover. Under the Special 100% Guarantee Product, loan applicants were not required to fulfil the normal criteria for credit application. The role of PLIs under this special arrangement would be to assess, using their expertise, whether the loan applicants had met the qualifying criteria for loan by following certain simplified procedures. As the relevant loans would be transferred to HKMC after drawing down by PLIs, HKMC would report the relevant progress to HKMA direct. PLIs would not be required to assess the borrowing SME's repayment ability under the Special 100% Guarantee Product as in the case of the 80% and 90% Guarantee Products.

23. At the regular meeting held in May 2020, the Panel gave views on a number of new and enhanced measures taken by the Administration to support local enterprises in the face of the economic downturn and in preparation for Hong Kong's relaunch, which included:

- (a) the further enhancements to various loan guarantee products under SFGS;⁴
- (b) enhancements to the BUD Fund and EMF (e.g. the increase of the initial payment and the expansion of the list of fundable items);
- (c) the measures to support SMEs introduced by the Hong Kong Trade Development Council ("HKTDC"), such as helping SMEs (i) capture opportunities through digital platforms and trade exhibitions; (ii) explore new markets on the Mainland and overseas; and (iii) enhance their competitiveness and resilience;
- (d) the measures to support Hong Kong exporters provided by the Hong Kong Export Credit Insurance Corporation ("ECIC"), such as (i) providing free pre-shipment cover for Small Business Policy ("SBP") holders⁵ on all approved buyers in all ECIC-insured markets; (ii) increasing 20% of credit limits of all approved buyers in all ECIC-insured markets for SBP holders, up to maximum of HK\$5 million; (iii) increasing premium discount to 50% for SBP holders; (iv) extending premium payment period for one month for SBP holders; and (v) waiving the annual policy fee for all policyholders;

⁴ FC approved the enhancements to the following loan guarantee products on 18 April 2020:

- (a) for the 80% and 90% Guarantee Products, to (i) increase the maximum loan amount per enterprise to HK\$18 million for the 80% Guarantee Product and to HK\$8 million for the 90% Guarantee Product; (ii) provide, for a one-year period, interest subsidy for loans to bring the interest rate per annum to a level on par with that of the Special 100% Guarantee Product, subject to a cap of 3%; and (iii) extend, for a one-year period, the eligibility criteria to cover publicly listed companies in Hong Kong; and
- (b) for the Special 100% Guarantee Product, to (i) increase the total guarantee commitment to HK\$50 billion; (ii) increase the maximum loan amount per enterprise to HK\$4 million; (iii) extend the application period to 12 months; and (iv) extend the principal moratorium period to 12 months.

⁵ Small Business Policy holders mean Hong Kong exporters with annual sales turnover less than HK\$50 million.

- (e) launching of the Convention and Exhibition Industry Subsidy Scheme for 12 months under the First Anti-epidemic Fund to subsidize (i) all participants of HKTDC's exhibitions and major conventions 50% of their participation fee, subject to a cap of HK\$10,000; and (ii) the organizers of exhibitions and international conventions at the Hong Kong Convention and Exhibition Centre and AsiaWorld-Expo 100% of the venue rental; and
- (f) launching of the Printing and Publishing Sector Subsidy Scheme under the Second Anti-epidemic Fund to meet all the participation fees of eligible participants of the sector in the coming Hong Kong Book Fair, subject to a cap of HK\$100,000.

The Panel also supported the Administration's initiatives to step up its support services to SMEs on funding applications of government funding schemes by consolidating the services of four SME centres⁶ in October 2019 to provide SMEs with more convenient and tailored support services and allow them to obtain the necessary information on all government funding schemes at any service point. The Panel also supported the setting up of a dedicated service team entitled "SME ReachOut" in January 2020 to help SMEs identify suitable funding schemes and provide direct support to SMEs who wish to apply for funding schemes through face-to-face or online meetings.

24. Whilst supporting the launching of the Convention and Exhibition Industry Subsidy Scheme, members suggested the following improvements to the Scheme: (a) to raise the subsidy level of from 50% to 75% or even 100% of the participation fees for the participants of all HKTDC's physical exhibitions and major conventions; (b) to remove the funding ceiling of HK\$10,000; (c) to expand the geographical scope of the physical exhibitions and conventions subsidized under the Scheme; (d) to provide SMEs with 50% financial subsidy (without funding ceiling) for participating in virtual expos; and (e) to extend the subsidy to participants of similar events organized by other organizations.

⁶ The four small and medium enterprise centres were (a) the Support and Consultation Centre for Small and Medium Enterprises under the Trade and Industry Department; (b) the "SME Centre" under the Hong Kong Trade Development Council; (c) the "SME One" under the Hong Kong Productivity Council; and (d) the "TecONE" under the Hong Kong Science and Technology Parks Corporation.

25. In addition to the relief measures rolled out to assist SMEs, members considered that the Commerce and Economic Development Bureau should, in collaboration with the health authorities and other Policy Bureaux, strive for restoration of cross-border ties with the Mainland by lifting border restrictions to facilitate the entry and exit of visitors which was a major source of revenue for the tourism-related industries. Noting that the fees for the coronavirus test performed by Mainland medical institutions were much more affordable than those in Hong Kong, some members urged the Administration to recognize test certificates issued by qualified Mainland medical institutions produced by Hong Kong enterprises with manufacturing operations in the Mainland in application for exemption from compulsory quarantine arrangement, similar to the arrangement for cross-border truck drivers, and suggested that the exemption be extended to Hong Kong enterprises with other types of operations in the Mainland, e.g. software companies, catering and farming, etc.

26. As regards the enhancements to the Special 100% Guarantee Product under SFGS, members urged the Administration to streamline the relevant procedures and requirements, including the requirement of collaterals, so as to expedite the funding process, and to step up promotion of SFGS to the banks, especially small to medium sized banks, to facilitate the smooth operation of SFGS.

27. Some members considered that the BUD Fund had room for further improvement in respect of application processing time and the amount of supporting information required from the applicants. They suggested shortening the one-year timeframe for cashflow projection required from the applicants of BUD Fund to, say a quarter or even shorter.

28. Whilst supporting the measures introduced by ECIC (paragraph 23(d) refers), members made further suggestions to improve the work of ECIC: (a) to raise the capital of ECIC to enhance the policy coverage for exporters; and (b) to further uplift the credit limits of approved buyers in ECIC-insured markets for SBP holders, say, by 50 to 70%, and expanding the scope of the measures.

Trade Relations between the Mainland and Hong Kong

29. During the session, the Panel received a briefing from the Administration on the Agreement signed on 21 November 2019 between the Hong Kong Special Administrative Region Government ("HKSARG") and the Ministry of Commerce under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") to amend

the CEPA Agreement on Trade in Services⁷ ("Service Agreement") in order to further open up the services market, thereby giving Hong Kong enterprises and professional sectors more preferential treatment to tap into business opportunities in the Mainland market.

30. The Panel noted that the newly signed Agreement to amend the Services Agreement ("Amendment Agreement") had introduced new liberalization measures in a number of important services sectors including removing or relaxing restrictions on equity shareholding, capital requirement and business scope in the establishment of enterprises, relaxing qualification requirement, etc., thus making it easier for Hong Kong service suppliers and professionals to set up enterprises and develop business in the Mainland.

31. Members in general welcomed the signing of the Amendment Agreement and considered that practitioners of different industries should be keen to know more about the implementation arrangements for the new liberalization measures. They suggested that the Administration should publish guidelines on the application for the preferential treatments under CEPA onto a dedicated webpage and provide a contact point for answering further enquiries.

32. The Administration emphasized the importance of raising the trade's awareness of the contents of CEPA as and when updates were available. Following the signing of the Amendment Agreement, the Trade and Industry Department ("TID") had met with the relevant trade to brief them on the details of the respective new liberalization measures. TID would organize a CEPA Forum to facilitate the trade to get familiar with the new liberalization measures and related implementation arrangements. TID would also, in collaboration with other Bureaux/Departments, make available all the latest information (including contact points in the Mainland) in relation to the implementation of the CEPA measures on CEPA's dedicated webpage. Enquiry hotlines were also available to handle relevant questions and receive feedbacks from the trade.

⁷ The Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") was signed in November 2015 and implemented since June 2016. The Agreement covers the Mainland's liberalization commitments for Hong Kong services industry provided under CEPA, and adds new liberalization measures, thus basically achieving liberalization of trade in services between the Mainland and Hong Kong. Under the Agreement, the Mainland has fully or partially opened up 153 sectors to Hong Kong services industry, accounting for 96% of all the 160 services sectors.

33. Referring to the Mainland's policy support for launching cross-boundary financial management pilot programmes and the measure to support Hong Kong-funded non-bank payment institutions to conduct electronic payment business in the Mainland, members urged the Administration to announce the relevant implementation arrangements, including the specific support for the non-bank payment institutions to start their businesses in the Mainland.

34. Noting that the Amendment Agreement had set out various new liberalization measures for the securities services, members opined that in order to develop cross-boundary financial services, it was equally important to strive for the Mainland's policy support for the securities industry to develop verification service in remote account opening. Without such policy, the industry was unable to provide "remote cross-border account opening" services and connect with its customers in a non-face-to-face situation.

35. Members were pleased to note that the Amendment Agreement had provided a broad policy direction on optimizing the "144-hour visa-exemption transit" policy for foreign group tours entering the Pearl River Delta Area and Shantou from Hong Kong through increasing the number of inbound control points and expanding the area allowed to stay. Members were of the view that it could promote multi-destination tourism and attract more overseas visitors to the Mainland via Hong Kong, thus boosting the ratio of non-Mainland visitor arrivals. Members urged the Administration to speed up the implementation timetable for the said arrangement and suggested that such policy should also cover Hong Kong-Zhuhai-Macao Bridge's East Artificial Island, which might be opened to tourists soon.

36. Some members considered that following development of the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area"), Hong Kong-based private healthcare groups would be eager to set up medical institutions in the Greater Bay Area to provide Hong Kong-style services to Hong Kong people living and working there. Members asked whether Hong Kong's healthcare professionals were eligible to practise in the Mainland.

37. The Administration advised that under CEPA, Hong Kong service suppliers might set up medical institutions in the Mainland in the form of wholly-owned entity, or in the form of equity or contractual joint venture with Mainland's medical institutions. Statutory healthcare professionals who had registered to practise in Hong Kong might provide short-term services in the Mainland. Eligible Hong Kong permanent residents might

sit the Mainland's Qualification Examinations for Medical Practitioners in clinical medicine, traditional Chinese medicine or dental medicine. A Medical Practitioner's Qualification Certificate would be issued to those who passed the examination.

Innovation and Technology

38. The development of I&T has always been one of the key areas of concern of the Panel. During the session, the Panel discussed with the Administration the policies and measures related to I&T development and re-industrialization in Hong Kong. The Panel took the opportunity to invite written submissions on the related subjects from major stakeholders of relevant industries and representatives from relevant groups/organizations. The Panel also gave views on the latest development of the Hong Kong Science Park ("HKSP") and Industrial Estates ("IEs") and the progress of various funding schemes under the Innovation and Technology Fund ("ITF"). Members also supported in principle the Administration's proposal to implement the proposed STEM Internship Scheme to subsidize undergraduates and postgraduates taking STEM (i.e. Science, Technology, Engineering and Mathematics) programmes in local universities to enrol in short term internships in I&T related work.

Implementation progress of the Innovation and Technology Fund

39. Some members considered that the Administration's capital injection into ITF over the past 20 years was meagre and the level of ITF's annual expenditure was far from sufficient for promoting I&T development in Hong Kong. They suggested that the Administration should (a) encourage the Research and Development ("R&D") Centres, universities and designated public research institutes to submit more project proposals in a bid to apply for funding under ITF; and (b) review the Government's matching investment ratio in the Innovation and Technology Venture Fund and streamline its procedures in vetting and approval of the investment proposals. Members also requested the Administration to consider establishing trade-specific programmes under ITF (e.g. funding schemes dedicated to financial technology or e-commerce) to facilitate the development of particular trades.

40. Some members suggested that the Administration should focus its effort and ITF's resources on not more than two technology areas (e.g. medical services, which involved the areas of pharmaceutical products, medical appliances and medical testing, etc.), as so doing could help create critical mass for maximum impact. Once a new industry based on the

identified technology area was successfully developed, it would create new development opportunities for broadening the economic base of Hong Kong and contribute to Hong Kong's GDP growth.

Establishment of InnoHK research clusters in the Hong Kong Science Park

41. Members noted that the establishment of the *InnoHK* research clusters would help capture and consolidate Hong Kong's R&D strengths, as well as promote the development of advanced technologies and the relevant local industries, thereby fostering the development of advanced manufacturing industries that were based on new technologies in the long run. They sought details of the progress of the establishment of the *InnoHK* research clusters, and asked about the key considerations in taking forward the establishment of the third *InnoHK* research cluster.

42. The Administration advised that the *InnoHK* initiative had received enthusiastic response, with a total of 65 proposals from world renowned universities and research institutes received. The first batch of R&D laboratories for the two *InnoHK* research clusters⁸ was expected to be set up progressively in 2020. As for the establishment of the third *InnoHK* research cluster, the Administration advised that it had positioned the *InnoHK* as a long-term initiative. The 2019 Policy Address Supplement had mentioned examining the setting up of the third *InnoHK* research cluster so as to further promote global R&D collaboration in Hong Kong. The Administration would review a number of factors such as the strengths of Hong Kong and the global technological development in considering the research focus of the third *InnoHK* research cluster.

Achievement of the Innovation and Technology Fund

43. Members considered it very important to ensure the effective use of ITF's financial resources.⁹ They urged the Administration to assess and quantify ITF's effectiveness and achievements in the following aspects: (a) the progress and achievements of ITF's funding schemes in supporting commercialization of local research outcomes; (b) the economic contributions brought by ITF and its funded projects, in terms of Hong Kong's competitiveness, productivity, GDP and employment market; and

⁸ The two research clusters are "*Health@InnoHK*" focusing on healthcare technologies and "*AIR@InnoHK*" focusing on artificial intelligence and robotics technologies.

⁹ Over the years, FC has approved a total of HK\$36 billion for the Innovation and Technology Fund ("ITF"). FC last approved the injection of HK\$2 billion into ITF on 15 May 2020 for launching the Re-industrialisation Funding Scheme.

(c) the number of overseas and Mainland companies so attracted to establish their presence in Hong Kong. Some members further opined that the Administration should gather information and publish relevant statistics so as to give international investors and I&T talents a clear picture of the potential of Hong Kong's I&T industry and attract them to establish their presence in Hong Kong.

Nurturing university start-ups

44. Noting that the Hong Kong Science and Technology Parks Corporation ("HKSTPC") had joined hands with The University of Hong Kong to set up the HKSTPC Western District Hub to provide incubation services for university start-ups and strengthen the academic-industry linkage, members sought elaboration on how the HKSTPC Western District Hub could complement the three incubation programmes (namely Incu-App, Incu-Tech and Incu-Bio) run by HKSTPC in HKSP.

45. The Administration advised that HKSTPC had been providing support on various fronts for start-ups in HKSP through its three existing incubation programmes. In addition, HKSTPC had been proactively enhancing its collaboration with local universities to help start-ups spun off from universities build connections with the industry and providing incubation services to facilitate technology transfer and commercialization of R&D results. HKSTPC had also been discussing with other local universities the possibility of having similar collaboration.

Nurturing and retaining technology talents

46. Members were of the view that most of the ITF applicant enterprises were start-ups or SMEs which had relied heavily on ITF's support in conducting R&D projects. Given that the financial support provided by ITF's funding schemes were usually time-limited and capped at certain level, members considered that the number of quality jobs these companies could create was far less than that could be created by multinational R&D corporations. As a result, Hong Kong's I&T practitioners could hardly find better jobs in the I&T field after working for several years and eventually many of them chose to leave the industry for good. These members suggested that in order to facilitate the creation of more quality jobs to retain technology talents, the Administration should (a) promote the industrialization of local I&T industry by way of, for example, promoting the extensive use of local R&D outcomes in the private market; and (b) incentivize multinational R&D corporations to set up regional offices in Hong Kong.

47. Members also pointed out that according to the Administration's survey, about 30% of the researchers funded under the Researcher Programme had left the sector after completing the engagement period. In order to formulate effective measures to retain I&T talents, they requested the Administration to consider collecting information on a regular basis about the career pursuits of all the researchers who had completed the engagement period under the Researcher Programme and enumerating the number of those who were still working in the I&T field.

Commercialization of local research outcomes

48. Members noted that a research team of The Hong Kong Polytechnic University led by Professor Terence LAU had invented in early 2020 a fully automated machine which could detect within approximately one hour up to 40 infectious respiratory pathogens (including novel coronavirus) in a single test. Yet, the research team had to rely on the funding support from the Shenzhen Municipal People's Government to realize the research outcome as the team had failed in its application for funding support from ITF for the concerned project. Members expressed concern about the effectiveness of the Administration's policies and the lack of adequate support from HKSTPC to help local universities realize and commercialize their R&D outcomes. Members also suggested that the Administration should, after trying out new technologies or products under the Public Sector Trial Scheme ("PSTS"), continue to work with the relevant research teams to help them commercialize the research outcomes.

49. The Administration advised that it had been proactively promoting the realization and commercialization of local R&D outcomes in Hong Kong. One of the examples was the Multilevel Antimicrobial Polymer coating which was developed by a local university with funding provided for five relevant projects. Moreover, the Administration launched on 9 March 2020 a special call under PSTS for projects to support product development and application of technologies for the prevention and control of COVID-19. The Administration also advised that Hong Kong and Shenzhen had all along been collaborating on R&D. For instance, the cross-boundary remittance of research funding allowed universities and research institutions in Hong Kong to use Mainland's R&D funding in Hong Kong.

Measures to support innovation and technology start-ups under the COVID-19 pandemic

50. Members pointed out that companies in HKSP, in particular I&T start-ups, were facing difficulties in raising funds, recruiting overseas and

Mainland I&T talents, promoting businesses and opening up new markets amid measures restricting cross-border travels. They urged the Administration to roll out more measures, in addition to the rental waivers for tenants in HKSP and IEs, to help start-ups tide over the difficult times.

51. In order to assist its I&T tenants in this difficult period, the Administration advised that HKSTPC had strengthened its work in (a) providing online business skills training to the I&T start-ups; (b) connecting technology companies with world-class enterprises through the Global Acceleration Academy to transform technologies into practical solutions for commercial purposes; and (c) supporting the application of technology solutions developed by its I&T tenants. HKSTPC would also provide more co-working spaces for leasing at an affordable rental to help graduates of its incubation programmes.

Work of the Hong Kong Science Park and the Industrial Estates in prevention and control of novel coronavirus infection in Hong Kong

52. Given the strong I&T capabilities of Hong Kong's I&T companies, members were keen to be briefed on the contributions that HKSTPC and the I&T companies in HKSP had made in the prevention and control of the epidemic situation. Some members opined that Hong Kong should in the long run set up its own production lines of personal protective equipment ("PPE"). They suggested that the Administration should support home-based production of PPE by earmarking floor space in HKSP or IEs and providing dedicated facilities (e.g. clean rooms) whereas HKSTPC should incentivize local enterprises to take up the vacant space in HKSP and IEs for purposes associated with the prevention and control of COVID-19.

53. The Administration advised that it had adopted a multi-tech approach in home quarantine support. The electronic wristbands and the mobile app which could pair with the electronic wristbands for monitoring people under home quarantine were developed by local I&T companies. The Administration also advised that the current occupancy rate of the three IEs was more than 90% and some of the vacant sites were open areas. HKSTPC would continue to identify sites for development of production facilities to encourage smart production. To supplement the Administration's anti-epidemic work, HKSTPC had assisted in identifying factories in the three IEs for manufacturers to establish mask production facilities and would continue to liaise with existing operators in the IEs to surrender floor space as well as clean room facilities for production of masks.

Developing innovation and technology infrastructure

54. On developing I&T infrastructure, members sought details of the Phase II of the Science Park Expansion Programme, in particular the respective proportion of the new floor space to be earmarked for R&D activities conducted by private enterprises and universities as well as R&D Centres. They also urged the Administration to complete the proposed Microelectronics Centre within budget and on schedule (i.e. by 2021) given that the Centre would create about 420 direct job opportunities.

55. Members urged the Administration to make available more land for data centre development to meet the growing demand for data centre services. The Administration advised that it had since 2012 launched a concessionary scheme to encourage the development of data centres by converting existing industrial buildings and redeveloping industrial lots. HKSTPC was developing in the Tseung Kwan O IE the Data Technology Hub which would be completed in the first half of 2020. Looking ahead, HKSTPC could consider allocating land/floor space for data centre development when conducting master planning study for individual reserved sites for future development of IEs.

Other issues

56. During the session, the Panel received briefings by the Administration on the following issues:

- (a) the work of the overseas ETOs and the Offices of HKSARG in the Mainland and Taiwan in 2018-2019;
- (b) the findings of the survey of companies in Hong Kong with parent companies located outside Hong Kong and the survey of start-ups in Hong Kong;
- (c) the work of Invest Hong Kong in 2019 and its work plan for 2020-2021; and
- (d) the progress of the implementation of the Professional Services Advancement Support Scheme.

The Panel also gave views on the following issues and supported in principle the relevant funding proposals:

- (a) the operation of the five R&D Centres¹⁰ under the purview of the Innovation and Technology Commission between 2015-2016 and 2018-2019, and the funding proposal of HK\$1,015.1 million to extend the operation of four R&D Centres¹¹ beyond 31 March 2021 for four years up to 31 March 2025; and
- (b) the progress of the development of Trade Single Window ("TSW"), and the funding proposal for the IT system required for implementing Phase 2 of TSW.¹²

Joint Subcommittee on Issues Relating to the Regulation of Devices and Development of the Beauty Industry

57. Under the chairmanship of Hon Tommy CHEUNG Yu-yan, the Joint Subcommittee established with the Panel and the Panel on Health Services commenced its work in December 2018 to study the issues relating to the regulation of devices and development of the beauty industry and make timely recommendations. Subsequent to the five meetings held in the last session, the Joint Subcommittee held one more meeting in this session to discuss with the Administration the issues including the implementation of Qualifications Framework in the beauty industry, and the Administration's policies and measures to support the industrialization of beauty trade. The Panel noted the Joint Subcommittee's report which summarized the deliberations and recommendations the Joint Subcommittee made in the 12-month period.

¹⁰ The five Research and Development Centres are: Automotive Platforms and Application Systems R&D Centre, Hong Kong Applied Science and Technology Research Institute ("ASTRI"), Hong Kong Research Institute of Textiles and Apparel, Logistics and Supply Chain MultiTech R&D Centre, and Nano and Advanced Materials Institute.

¹¹ Except ASTRI as its operating expenditure is funded separately by the Government.

¹² According to the Administration, the IT system required for implementation of Phase 2 entails a non-recurrent cost of HK\$133.77 million from 2020-2021 to 2023-2024.

Meetings held

58. From October 2019 to June 2020, the Panel held a total of 10 meetings, including one joint meeting with other Panels.

Council Business Division 1
Legislative Council Secretariat
7 July 2020

Panel on Commerce and Industry

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to commerce, industry, business and services promotion, innovation and technology, intellectual property protection and inward investment promotion.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Panel on Commerce and Industry

Membership list for 2019 - 2020 session*

Chairman	Hon Jimmy NG Wing-ka, BBS, JP
Deputy Chairman	Hon Alvin YEUNG
Members	Hon Jeffrey LAM Kin-fung, GBS, JP Hon WONG Ting-kwong, GBS, JP Hon WU Chi-wai, MH Hon YIU Si-wing, BBS Hon MA Fung-kwok, SBS, JP Hon Charles Peter MOK, JP Hon CHAN Chi-chuen Hon Dennis KWOK Wing-hang Hon Christopher CHEUNG Wah-fung, SBS, JP Hon Elizabeth QUAT, BBS, JP Hon Martin LIAO Cheung-kong, GBS, JP Dr Hon CHIANG Lai-wan, SBS, JP Ir Dr Hon LO Wai-kwok, SBS, MH, JP Hon CHUNG Kwok-pan Hon CHU Hoi-dick Hon SHIU Ka-fai, JP Hon CHAN Chun-ying, JP Hon LAU Kwok-fan, MH (Total : 20 members)
Clerk	Mr Desmond LAM
Legal Adviser	Miss Rachel DAI

* Changes in membership are shown in **Annex**.

Panel on Commerce and Industry

Changes in membership

Member	Relevant date
Hon Kenneth LAU Ip-keung, BBS, MH, JP	Up to 20 October 2019
Hon Paul TSE Wai-chun, JP	Up to 23 October 2019
Hon Starry LEE Wai-king, SBS, JP	Up to 24 October 2019
Hon Steven HO Chun-yin, BBS	Up to 24 October 2019
Hon CHAN Hoi-yan	Up to 24 October 2019
Hon Abraham SHEK Lai-him, GBS, JP	Up to 27 October 2019
Hon CHAN Hak-kan, BBS, JP	Up to 27 October 2019
Hon CHAN Kin-por, GBS, JP	Up to 27 October 2019
Hon Frankie YICK Chi-ming, SBS, JP	Up to 27 October 2019
Hon Holden CHOW Ho-ding	Up to 27 October 2019
Hon Wilson OR Chong-shing, MH	Up to 27 October 2019
Hon CHEUNG Kwok-kwan, JP	Up to 27 October 2019
Hon YUNG Hoi-yan, JP	Up to 19 December 2019
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP	Up to 7 January 2020