

**Panel on Commerce and Industry
Meeting on 19 December 2006**

Work of the Hong Kong Science and Technology Parks Corporation

Purpose

This paper briefs Members on the work of the Hong Kong Science and Technology Parks Corporation (HKSTPC), including its Industrial Estates (IEs) programme, as requested by Members at the Panel meeting on 12 October 2006.

Background

2. The HKSTPC was established on 7 May 2001 by merging three former organisations, viz. the Hong Kong Industrial Estates Corporation, Hong Kong Industrial Technology Centre Corporation, and the Provisional Hong Kong Science Park Company Limited, into a statutory corporation wholly-owned by the Government. HKSTPC was set up to facilitate the research and development (R&D) and application of technologies in manufacturing and service industries in Hong Kong, and to support the development, transfer and use of new or advanced technologies in Hong Kong (section 6(1) of the HKSTPC Ordinance, Cap 565). HKSTPC operates and manages the Hong Kong Science Park at Pak Shek Kok, Tai Po; three Industrial Estates (IEs) at Tai Po, Yuen Long and Tseung Kwan O; and the InnoCentre at Kowloon Tong to provide premises to eligible applicants. HKSTPC also provides support services and facilities through its technology support centres in the Science Park and incubation programmes in the Science Park and InnoCentre.

Organisation and Management

3. HKSTPC is governed by a Board of Directors (current membership at Annex). The Chairman is appointed by the Chief Executive, and other members by the Financial Secretary. The Permanent Secretary of Commerce, Industry and Technology (Communications and Technology) is an ex-officio member on the Board. The HKSTPC Management is headed by a Chief Executive Officer. As stipulated in the Hong Kong Science and Technology Parks Corporation Ordinance, the HKSTPC conducts its businesses according to prudent commercial principles.

HKSTPC's Finances

4. HKSTPC's authorized capital upon its establishment on 7 May 2001 is \$1,836,397,594. To develop Phase Two, on 6 July 2001, the Finance Committee of Legislative Council approved a commitment to inject \$2,435 million as equity and to provide a loan of \$1,043 million from the Capital Investment Fund to the HKSTPC. By October 2006, the equity has been injected in full to HKSTPC, and HKSTPC intends to start drawing the loan at an appropriate time.

5. HKSTPC has recorded an operational surplus of \$51 million in 2001/02, followed by deficits of \$45 million, \$43 million and \$11 million in 2002/03, 2003/04 and 2004/05 respectively. In 2005/06, a surplus of \$63 million is recorded^{Note 1}. For 2006/07, a surplus of \$24.2 million is expected.

6. HKSTPC Management prepares an annual business plan and budget in November each year and presents them to the Board for discussion and approval. The business plan and budget for the ensuing year are then submitted to the Financial Secretary before 1 February for approval.

Hong Kong Science Park

Development of the Park and Cluster Building

7. The Science Park is a flagship project of the Government's strategy in providing technological infrastructure for applied R&D. It is being developed in three phases on 22 hectares of land along the clustering concept, covering the four domains of electronics; information technology and telecommunications; biotechnology; and precision engineering.

8. Construction of Phase One was completed in October 2004. As at end November 2006, about 816,000 square feet or 89% of the lettable space of Phase One has been occupied by or earmarked for 100 approved tenants. Including prospective tenants in the pipeline, the occupancy rate is about 97%. Electronics is the largest cluster in the Science Park, with 39 approved tenants in this field (39% of the total number of approved tenants) taking up 43.2% of the total let out space. This is followed by information technology & telecommunications (32 approved tenants and taking up 31.4% of the total let out space); precision engineering (17 approved tenants and taking up 20.1% of the total let out space) and biotechnology (12 approved tenants and taking up 5.3% of the total let out space). About half of the approved tenants are Hong Kong companies (53% of the total) and the other half originate from outside Hong Kong (47%). In terms of space, Hong Kong companies take up 42.3% of the total, whereas non-local companies, 57.7%.

^{Note 1} Please see HKSTPC Annual Reports tabled at Legislative Council in November each year (2002-06).

9. Construction of Phase Two of the Science Park will be completed in stages from early 2007 until 2009. Phase Two will provide eleven buildings including dedicated laboratory buildings, R&D office buildings, and additional laboratory facilities. HKSTPC is engaging in intensive marketing programme to promote Phase Two. The Corporation partners with other organizations such as Invest Hong Kong and the Hong Kong Trade Development Council which have an extensive network of companies locally and internationally. The targeted number of companies to be recruited is 150 in the four target technology clusters: Electronics (40%, 60 companies), IT and Telecommunications (20%, 30 companies), Precision Engineering (20%, 30 companies) and Biotechnology (20%, 30 companies).

10. So far, Science Park tenants have created about 1,700 new jobs of which 85% are in R&D, and made a total investment of some \$4.7 billion during their first three years of operation. HKSTPC is examining the demand for Science Park Phase Three and is planning to submit a development plan to the Government in early 2007.

Technology Support

11. The Science Park provides technology support services to foster the development of technology-based clusters. Its Technology Support Centres currently comprise an Integrated Circuit (IC) Design/Development Support Centre, an Intellectual Property Servicing Centre, a Materials Analysis Laboratory, a Photonics Development Support Centre, a Bio-informatics Centre and a Wireless Communications Test Laboratory. These facilities aim to help reduce entry barriers for industry to engage in high-end activities and achieve clustering of industries by way of providing fee-charging, centralized facilities and equipment on a cost-spreading basis.

Incubation Programme

12. HKSTPC runs a technology incubation programme for technology start-up companies by providing them with low-cost accommodation as well as management, marketing, financial and technical assistance. In 2006, HKSTPC has expanded the scope of its incubation activities to include a new programme to support design start-ups (see para. 21 below). HKSTPC has also initiated a Small Technology/Design Enterprise Programme from April 2006 to provide graduates of the incubation programme with support services and office premises at the usual tenant rate inside the current incubation centre, to support them to become full-fledged enterprises.

13. As at end November 2006, 222 technology companies have participated in the programme, with 70 of them still under incubation. 18 incubatees have later become Science Park tenants. In year 2005/06, the incubatees have in total filed 19

patents or trademarks, won 32 technical and management awards ^{Note 2}, and 18 incubatees have in aggregate attracted \$69.23 million angel or venture capital investment. HKSTPC aims to support some 100 technology-based incubatees each year.

Industrial Estates (IEs)

14. IEs offer developed land to both manufacturing and service industries with new or improved technology and processes which cannot operate in multi-storey factories or commercial buildings. In this way, the IEs facilitate the overall development of Hong Kong's economy by broadening its economic base and upgrading technology levels.

15. The IEs in Tai Po, Yuen Long and Tseung Kwan O commenced operation in 1978, 1980 and 1994 respectively. They have a total area of 217 hectares. As at end November 2006, about 86% of the total leasable area has been occupied by or earmarked for 141 approved grantees. (The IEs at Tai Po and Yuen Long are practically full while Tseung Kwan O IE is 62% taken up).

16. The IEs, first set up about 28 years ago, are facing challenges resulting from the changes in the economic and industrial landscape of Hong Kong. On the other hand, the implementation of the Closer Economic Partnership Arrangement (CEPA) provides Hong Kong with a free trade pact under which all Hong Kong goods can be exported duty-free to the Mainland. CEPA has given rise to significant inward investment opportunities for various industries. For example, new operations have been set up in the IEs for high quality Traditional Chinese Medicine (TCM) patent medicine and sustenance healthcare products, and R&D, quality assurance and logistics centre for global TCM business operations. In addition, the IEs promote inward investment, with about 40% of the grantees originating from Mainland and overseas companies. To cope with the changing character of the manufacturing sector and the increasing contribution of service industry, the scope of activities permissible in IEs were extended to include the supporting services for manufacturing in 1990 and service industries in 1998.

17. HKSTPC is planning to take forward a comprehensive study to examine the position of the IEs in the overall context of the economic and industrial environment in the region and the key strategic issues concerning the IEs. The study will review issues like demand for special industrial land of the IEs, admission criteria, competitiveness of land premium, lease management policies, and the need or otherwise for a fourth industrial estate, etc. Meanwhile, HKSTPC management

^{Note 2}The patents and trademarks filed by incubatees are in different fields, including electronics and environmental industries. The awards won by incubatees include regional awards and local awards like the Hong Kong Awards for Industries, Hong Kong Electronic Industries Association awards, Hong Kong Digital Entertainment Excellence Awards etc.

is taking a proactive approach in improving the utilisation of IE land and premises.

InnoCentre

18. The InnoCentre building, formerly known as the Industrial Technology Centre, was completed in 1994 and was vested with the then Hong Kong Industrial Technology Centre Corporation (which was merged to form the HKSTPC in May 2001). The building is seven-storey high with a floor area of 24,000 square metres. It was used to accommodate technology-based companies and incubatees under HKSTPC's Technology Incubation Programme. The building had some facilities for conducting seminars and training classes.

19. In June 2004, the Government launched the DesignSmart Initiative (the Initiative)^{Note 3} to promote wider use of design and innovation in industries. The Initiative includes the setting up of an InnoCentre as a one-stop shop to bridge designers and users of design services, develop and promote different design services, and enhance the role of Hong Kong as the design hub in the region. The InnoCentre provides the following services:

- incubation services for design start-ups;
- office space for lease to design companies;
- design-related exhibition, seminars and workshops;
- design-related resource centre; and
- events and activities for networking among design professionals and user industries.

20. HKSTPC embraces design as one of its focused clusters for supporting innovation and technology development. It has engaged with Hong Kong Design Centre (HKDC)^{Note 4} in a strategic partnership to implement the development of the InnoCentre.

21. Out of the \$250 million under the Initiative, \$45 million has been set aside for supporting the operation of the HKDC at the InnoCentre in developing and organizing design-related programmes and activities and another \$25 million has

^{Note 3} The DesignSmart Initiative comprises two main elements, namely a Design Support Programme (DSP) and the InnoCentre. The DSP with a funding of \$180 million includes four funding schemes to provide resource support for projects in design and branding-related research, design and business collaboration, professional continuing education and the promotion of a design culture. As at end November 2006, the Initiative has provided funding support of \$52 million for 48 projects, which cover an array of activities such as conferences, seminars, exhibitions, design competitions, training courses and design research.

^{Note 4} HKDC is an infrastructure organization established in 2001 to further the development of design. It was formed with the concerted efforts of four leading design professional bodies in Hong Kong, viz the Hong Kong Designers Association; Chartered Society of Designers, Hong Kong; Interior Design Association Hong Kong and Hong Kong Fashion Designers Association. The objectives of the HKDC are to promote design as a value-adding activity, enhance design standards, foster design-related education, and raise the profile of Hong Kong as an innovation and creative hub.

been set aside for supporting the running of a Design Incubation Programme by HKSTPC. The Design Incubation Programme aims to support design start-up companies working in a variety of fields, including product design, visual and media arts, branding and packaging, jewellery, fashion, interior design etc. The programme is expected to support 50 incubatees over five years.

22. Following completion of renovation to provide dedicated facilities for holding design-related programmes and activities, the InnoCentre was officially opened by the Chief Executive on 13 November 2006. Existing technology-based companies and incubatees are gradually being moved out from the InnoCentre to Science Park to make available more space for design companies and incubatees. As at end November 2006, there were 11 design tenants and 13 design incubatees at the InnoCentre.

23. With the increasing breadth and depth of HKDC's activities and plans to enhance its role, we plan to seek the Finance Committee's approval for allocating \$100 million to support HKDC's operation using the InnoCentre as a base over the next five years.

Conclusion

24. Government policy is to provide a conducive environment for the development of high value-adding and high technology industries in Hong Kong consistent with the demands of the market through a programme of funding and infrastructural support. HKSTPC is established as a statutory institution to provide an important part of our technology infrastructure. It will continue to forge ahead with its vision to play a leading role in contributing to Hong Kong's innovation and technology development.

HONG KONG SCIENCE AND TECHNOLOGY PARKS CORPORATION

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Permanent Secretary for Commerce, Industry and Technology (Communications and Technology)

(Alternate Member:

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Deputy Commissioner for Innovation and Technology, or
Assistant Commissioner for Innovation and Technology)