立法會
Legislative Council

LC Paper No. CB(1)846/08-09
(These minutes have been seen by the Administration)

Ref : CB1/PL/CI/1

Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 18 November 2008, at 2:30 pm
in Conference Room A of the Legislative Council Building

Members present **:** Hon Vincent FANG Kang, SBS, JP (Chairman)
Hon WONG Ting-kwong, BBS (Deputy Chairman)
Hon Fred LI Wah-ming, JP
Hon Emily LAU Wai-hing, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Hon Tanya CHAN
Dr Hon Samson TAM Wai-ho, JP

Members attending **:** Hon Cyd HO Sau-lan
Hon Paul CHAN Mo-po, MH, JP
Hon Paul TSE Wai-chun

Members absent **:** Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP

Public officers attending	**:**	Agenda Item IV & V Mr Gregory SO, JP Acting Secretary for Commerce and Economic Development Miss Vivian LAU Lee-kwan, JP Acting Director-General of Trade & Industry Ms Joyce TAM Assistant Director-General (Mainland) Trade and Industry Department Agenda Item VI Mr Gregory SO, JP Acting Secretary for Commerce and Economic Development Mr Alan SIU, JP Deputy Secretary for Commerce and Economic Development (Communications and Technology) Mr Gordon LEUNG, JP Deputy Commissioner for Innovation and Technology Mr Dennis PANG Assistant Government Chief Information Officer (Industry Development) Office of the Government Chief Information Officer
Attendance by invitation	**:**	Agenda Item VI Hong Kong Cyberport Management Company Limited Mr Nicholas YANG Chief Executive Officer Mr David CHUNG Head (IT Operations)
Clerk in attendance	**:**	Ms YUE Tin-po Chief Council Secretary (1)3

Staff in attendance : Ms Annette LAM
Senior Council Secretary (1)3

Ms Debbie SIU
Legislative Assistant (1)6

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)104/08-09 -- Minutes of meeting held on 14 October 2008)

The minutes of the meeting held on 14 October 2008 were confirmed.

II. Information paper issued since last meeting

2. Members noted that no paper had been issued since the last meeting held on 14 October 2008.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)201/08-09(01) -- List of outstanding items for discussion

LC Paper No. CB(1)201/08-09(02) -- List of follow-up actions)

3. The next regular Panel meeting would be held on 16 December 2008 at 2:30 pm to discuss the following items proposed by the Administration:

(a) Follow-up to the Copyright (Amendment) Ordinance 2007 -

- refined proposals in relation to the copying and distribution offence under section 119B of the Copyright Ordinance for the Safe Harbour Regulation, and Rental Rights for Comics; and

(b) Progress of the World Trade Organization (WTO) Doha Development Agenda Negotiations

(*Post-meeting note*: On the instruction of the Chairman, the item "Progress update on the support measures for small and medium enterprises arising from the global financial turmoil" was added to the agenda for the regular meeting scheduled for 16 December 2008. At the request of the Administration and in view of the fact that the WTO ministerial conference in December 2008 was cancelled, the Chairman agreed to defer discussion of item (b) to a future meeting.)

IV. Progress update on the support measures for small and medium enterprises arising from the global financial turmoil

(LC Paper No. CB(1)201/08-09(03)	--	Administration's letter dated 17 November 2008
LC Paper No. CB(1)141/08-09(01)	--	Administration's paper on the summary of views received from the SME Summit held on 23 October 2008
LC Paper No. CB(1)189/08-09(05)	--	Paper on summary of deputations' views received at the special meeting on 27 October 2008 prepared by the Legislative Council Secretariat
LC Paper No. CB(1)204/08-09(01)	--	Hon Emily LAU's question on shop rentals at the Council meeting on 12 November 2008 and the Administration's reply)

Presentation by the Administration

4. At the invitation of the Chairman, the Acting Secretary for Commerce and Economic Development (Atg SCED) updated members on the latest progress in providing additional support to small and medium enterprises (SMEs) arising from the global financial crisis. He said that upon completion of the necessary procedures for legal documentation, the Special Loan Guarantee Scheme for Small and Medium Enterprises (SpGS) approved by the Finance Committee (FC) on 14 November 2008 was expected to come into operation in December 2008. The Administration had been in close liaison with the Hong Kong Monetary Authority (HKMA) and the Hong Kong Association of Banks (HAKE) regarding members' concerns on lending institutions' readiness to grant loans to SMEs, the time and procedures required for processing loan applications, and the interest rates to be applied to the loans. As regards Hong Kong enterprises operating in the Mainland, Atg SCED highlighted that the Administration had been maintaining close contact with relevant Mainland authorities at both the Central and provincial/municipal levels, conveying to them the difficulties and concerns of Hong Kong enterprises in the Mainland, and recommending measures to assist these enterprises. The Central People's Government (CPG), Guangdong Provincial Government, as well as the Dongguan and Shenzhen Municipal Governments had recently announced plans to support Hong Kong enterprises in the Mainland.

Discussion

Effectiveness of the SME Loan Guarantee Scheme and the Special Loan Guarantee Scheme for Small and Medium Enterprises

5. Mr Tommy CHEUNG expressed grave concern that according to many SMEs in the catering industry, banks were still reluctant to provide loans to them despite the introduction of the enhanced measures under the existing SME Loan Guarantee Scheme (SGS) and the increase in Government loan guarantee ratio to 70% under the SpGS. He doubted whether the schemes would achieve their intended purpose of improving the liquidity of SMEs during this critical period. The Chairman pointed out that as the banking sector was also facing credit problem, lending institutions might not be willing to grant loans to SMEs. Mr Jeffrey LAM, Ms Emily LAU and Dr LAM Tai-fai also expressed reservation about lending institutions' readiness to relax credit to the SME sector. They doubted whether the enhanced SGS and the SpGS could effectively help address SMEs' immediate liquidity problem. In this connection, members sought information on measures to help SMEs obtain sufficient funding to weather the financial storm if lending institutions remained unwilling to relax their credit grips.

6. In response, Atg SCED advised that in general, lending institutions had responded positively to the schemes. He said that the Government was highly concerned about the hardship faced by SMEs and was committed to providing appropriate support for SMEs. In response to the industry's call for greater support, a series of concrete improvement measures were rolled out within a short period of time to help SMEs obtain immediate cash flow relief from the commercial lending market and also to provide SMEs with greater flexibility in obtaining the necessary capital to maintain their operations and develop new markets. He pointed out that with the removal of the sub-ceilings for the Working Capital Loans (WCL) and Business Installations and Equipment Loan (BIE) while maintaining the overall maximum guarantee for each SME at $6 million, each SME would be able to obtain a maximum loan guarantee of up to $12 million under the enhanced SGS. In addition, SMEs would also benefit from the $1 million loan under the SpGS as well as the enhanced measures launched recently by the Hong Kong Export Credit Insurance Corporation.

7. On lending institutions' readiness in extending credit facilities to SMEs, the Acting Director-General of Trade and Industry (Atg DG/TID) said that the HKMA had issued a circular urging lending institutions to adopt, within bounds of prudent credit assessment, a flexible and positive attitude towards the funding needs of SMEs. The Administration would continue to liaise with banks to explore ways to address their concerns about lending to SMEs. Atg SCED added that with the provision of 70% Government guarantee for SpGS, it was expected that participating lending institutions (PLIs) would be more forthcoming and positive in granting credit facilities to SMEs. As the enhanced SGS had been launched for only about two weeks and the SpGS had not yet commenced, it was too early to assess the schemes' effectiveness. Atg SCED assured members that the

Administration would closely monitor the implementation of the improvement measures while actively exploring other support measures as appropriate.

Implementation progress of SGS and SpGS

8. Mr WONG Ting-kwong said that according to representatives of trade associations, some banks had not yet been notified of the details of the enhanced SGS. He enquired whether the HKMA had notified all banks of the new arrangements. In response, Atg SCED and Atg DG/TID advised that the SpGS approved by FC on 14 November 2008 had not yet commenced operation. Subject to the completion of the necessary procedures and legal documentation, the SpGS was expected to come into operation in December 2008. As regards the enhanced SGS, about 10 PLIs had signed the agreement with the Government to join the enhanced scheme when the improvement measures came into operation on 6 November 2008. Atg SCED further explained that as time was needed for lending institutions interested in the enhanced SGS to complete the necessary legal procedures and documentation before they started accepting applications from SMEs, there might be a time lag before the banks' frontline staff came to know the details of the scheme. Atg DG/TID supplemented that a list of PLIs was available on the TID website and the information would be updated from time to time when more PLIs signed up to join the enhanced SGS.

9. Referring to the media reports about banks tightening credit and that so far only five applications were being processed, the Chairman expressed grave concern that the implementation of the schemes was too slow and far from satisfactory. He opined that unless lending institutions took prompt action to ease the liquidity problem of SMEs and expedite the approval of loans, it would be too late to rescue SMEs that were on the brink of collapse. He was concerned that mass closure of SMEs would aggravate unemployment and set off a domino effect on the overall economy. As such, he urged the Administration to take prompt action to prevent the credit crunch from worsening. Mr Tommy CHEUNG cautioned that a great number of SMEs might not be able to survive beyond the end of the year. In view of the current critical situation, it was crucial for the Administration to take prompt and decisive actions to ease the financial hardship of SMEs. Ms Emily LAU expressed regret that the Administration did not seem to understand the serious impact of the current global financial crisis which was more ferocious than that during the outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003. Mr WONG Ting-kwong and Mr Jeffrey LAM shared similar view and highlighted that in view of the ferocity of the current financial crisis and its serious ramifications, there was an urgency to help ease the immediate cash flow problem of SMEs.

10. In response, Atg SCED and Atg DG/TID said that the Administration was fully aware of the problems faced by SMEs and the urgency of rendering timely assistance to help improve their liquidity. As such, the Administration had promptly introduced a number of new measures to assist SMEs. They highlighted that discussions were underway with lending institutions on how to streamline the

loan application procedures and to expedite the vetting and processing of loan applications with a view to shortening the processing time. Atg SCED reiterated that the Administration would keep a close track of developments to provide timely assistance to SMEs.

11. Ms Emily LAU opined that the Administration should made available information on the utilization of the SGS and the SpGS with a detailed breakdown on the number of applications received, the amount of loans approved, and applications rejected by PLIs and the Trade and Industry Department (TID) along with the reasons for refusal. She said that such information would enable Panel members to better assess the progress of implementation and the effectiveness of the enhanced SGS and SpGS. Referring to the series of lay-offs as reported in the press recently, Ms LAU requested the Administration to also provide statistics on the number of SMEs/companies that had winded up their business, if available. Atg DG/TID undertook to provide the requisite information.

(*Post-meeting note*: The information provided by the Administration was issued to members vide LC Paper No. CB(1)288/08-09 on 1 December 2008.)

12. Ms Emily LAU opined that the Administration should have a timeframe in mind to consider introducing other support measures, for example, a 100% Government guaranteed loan similar to the special scheme introduced during the SARS period, in the event lending institutions remained reluctant to provide loans and the schemes failed to ease SMEs' liquidity problem. Sharing a similar view, Mr Jeffrey LAM remarked that small-sized and medium-sized enterprises had different needs and the $1 million loan under the SpGS could not be of much help to medium-sized enterprises. He urged the Administration to introduce as soon as possible a time-limited 100% Government guaranteed loan as an interim measure to assist SMEs, pending review of the progress of the approved schemes. Atg SCED advised that the Loan Guarantee Scheme for Severe Respiratory Syndrome Impacted Industries was an industry-specific and time-limited arrangement open to four targeted industries and with application period lasting for three months only. He appealed to members to allow time for the recently approved SGS enhancements and SpGS to work and make an impact.

13. Dr LAM Tai-fai criticized the Administration for adopting a wait-and-see attitude. He said that an efficient Government should anticipate problems in advance and take prompt and decisive actions to tackle the problems with effective and workable solutions. Noting that the $1 million loan under the SpGS came with conditions attached to it, such as a personal guarantee requirement and a prohibition on using the loan to repay other loans, Dr LAM opined that such a scheme would not be of any practical help to the SME sector. He was of the view that the core of the problem lied with the lack of confidence in the banking sector and banks' reluctance in shouldering the credit risk of lending to SMEs. Unless targeted measures were put in place to specifically address the confidence issue, no schemes could effectively improve the liquidity of SMEs. He added that under

such unusual circumstances where credit confidence was under severe stress, a responsible government should take up full risk and provide a 100% guaranteed loan to the SME sector. He urged the Administration to actively consider the views and suggestions put forward by trade associations and Legislative Council Members in previous discussions.

14. Ms Cyd HO was concerned that the liquidity squeeze would have a knock-on effect that could result in the closure of otherwise healthy SMEs. She considered that there should be a lender of last resort during this critical time of confidence crisis and the Government was in the best position to take up this role.

15. In response, Atg SCED highlighted that the Government had already taken up a major share of the default risk by way of a 50% guarantee for loans of up to $12 million for each SME under the enhanced SGS plus a 70% guarantee for the $1 million loan under the SpGS. As public money was involved, due prudence had to be exercised when considering any further increase in the Government guarantee ratio. He once again appealed to members to allow time for the loan schemes to work and the Administration to assess their effectiveness.

Appeal mechanism for unsuccessful loan applications

16. Pointing out that PLIs were the first-line in charge of loan vetting, Mr WONG Ting-kwong expressed concern about the absence of an appeal mechanism for reviewing SME loan applications rejected by PLIs. As lending institutions customarily referred to the data maintained by the Commercial Credit Reference Agency as a basis for conducting credit assessments for SMEs, Mr WONG said that cases rejected by one PLI was likely to be refused by another PLI. He asked whether the Administration would consider putting in place an appeal mechanism to review unsuccessful applications.

17. Atg DG/TID advised that in line with the existing and previous Government loan guarantee schemes for SMEs, the operation of the SGS and the SpGS would be market driven. The PLIs, being commercial entities, would operate in accordance with commercial market principles. All applications for SGS and the SpGS would be first processed by PLIs for initial vetting and then referred to TID for final endorsement. In the past, more than 99% of the loan applications referred by PLIs were approved by TID. Atg SCED supplemented that the Administration did not have resources and the requisite professional expertise to vet loan applications. TID had to rely on PLIs to exercise their prudential professional judgment in assessing SMEs' loan applications. As there was currently no provision for a review/appeal mechanism, SMEs rejected by one PLI could consider applying to other PLIs. In this regard, Atg DG/TID said that the Administration would follow up shortly with the HKAB to deliberate on credit risk assessment criteria, the vetting mechanism, and related procedures. TID would continue its effort to invite more lending institutions to participate in the schemes so that SMEs could have more choices of PLIs.

Interest rates for the SpGS

18. Referring to members' suggestion raised at the last special meeting for securing from PLIs a concessionary interest rate for the SpGS, Mr Tommy CHEUNG enquired about the progress made in this regard. He asked whether the Administration had actively examined the feasibility of setting a ceiling for the interest rate to be applied to the SpGS and whether the Administration had drawn up a timetable for discussion with PLIs. In response, Atg SCED said that the interest rates for SpGS would be determined by individual PLIs concerned in accordance with market principles. The Administration had been following up with the HKMA and the HKAB regarding members' concern about the interest rates for the SpGS.

Other support measures for SMEs

19. Mr Jeffrey LAM commended the Administration for conveying to the CPG the concerns and difficulties of Hong Kong enterprises operating in the Mainland. He noted that the Administration's effort had brought about the introduction of a series of positive measures in the Mainland such as revision of export tax rebates and reduction or exemption of administrative levies and fees to help reduce operating costs. He understood that banks in the Mainland had also responded positively to Premier Wen Jiabao's call to relax credits extended to Hong Kong enterprises operating in the Mainland. As it would take time to process loan applications, Mr LAM urged the HKSAR Government to consider providing a 100% Government backed short-term loan to Hong Kong enterprises in the Mainland to help tide over their cash flow problem pending approval of loans by Mainland banks. Mr LAM also called on the Administration to take prompt and decisive steps to adopt further support measures such as lowering rents, waiving or freezing fees for public services relating to business operation, and holding over the payment of provisional tax to help the industry.

20. Sharing a similar view, Ms Emily LAU said that the Government should take the lead in lowering the rental of shops, public markets, and stalls in Government and Housing Authority premises. She enquired about the progress of the Administration's appeal to the Link Management Limited (LML) and proprietors of other major shopping malls to lower the shop rentals.

21. In response, Atg SCED said that the Administration had written to the LML urging them to consider providing small shop tenants with appropriate support measures to help them tide over the current difficulties. While awaiting the reply from the LML, a similar appeal had been made to the Real Estate Developers Association of Hong Kong which had undertaken to distribute the appeal letter to its member organizations. As regards public markets and shop rental in Government premises generally, he said that the overall policy was to charge market rent, but for some of these premises the rents had been frozen for a period of time. He highlighted that the Administration would actively consider and explore the feasibility of all options available to alleviate the financial burden on

SMEs.

Way Forward

22. The Chairman suggested and members agreed to invite the Administration to update the Panel on the progress of support measures for small and medium enterprises on a regular basis at each regular Panel meeting.

23. In response to Ms Cyd HO's suggestion that a meeting be held with the HKAB and deputations on the matter, the Chairman advised that the Panel had already exchanged views with the HKMA and relevant trade associations/chamber of commerce at a special meeting held on 27 October 2008. HKAB was among those invited but had declined the Panel's request to attend the meeting.

(*Post-meeting note*: At the request of Hon Emily LAU and Hon Tommy CHEUNG and with the concurrence of the Chairman, a special meeting was scheduled for 1 December 2008 at 4:30 pm to discuss the matter. The HKMA, HKAB and relevant business associations/chambers of commerce were invited to attend the meeting.)

V. Further liberalization under Mainland and Hong Kong Closer Economic Partnership Arrangement and deepening economic and trade co-operation with Guangdong province

(LC Paper No. CB(1)201/08-09(04)	--	Administration's paper on Mainland and Hong Kong Closer Economic Partnership Arrangement and deepening economic and trade co-operation with Guangdong province
LC Paper No. CB(1)148/08-09	--	Legislative Council Brief issued by the Trade and Industry Department
LC Paper No. CB(1)201/08-09(05)	--	Paper on the latest development of the Mainland and Hong Kong Closer Economic Partnership Arrangement prepared by the Legislative Council Secretariat (updated background brief))

Presentation by the Administration

24. At the invitation of the Chairman, Atg SCED briefed members on the implementation and latest development of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), and the content of Supplement V to

CEPA and the package of services liberalization and facilitation measures for early and pilot implementation in Guangdong to deepen Guangdong-Hong Kong economic and trade cooperation announced on 29 July 2008. Details of the new measures were set out in the Administration's paper LC No. CB(1)201/08-09(04).

Discussion

25. Mr WONG Ting-kwong noted that under Supplement V to CEPA, Hong Kong service suppliers (HKSS) were allowed to set up outpatient clinics in Guangdong on a wholly-owned, equity joint venture, or contractual joint venture basis. While medical practitioners in Hong Kong welcomed business opportunities in Guangdong, they were concerned that the professional indemnity insurance taken out in Hong Kong was not applicable to the Mainland and were uncertain of how complaints and claims for compensation lodged by Mainland patients, if any, should be handled.

26. In response, Atg DG/TID said that similar enquiries had been received from the medical sector during the third CEPA consultative forum held on 11 November 2008. She understood that the major problem lied with the lack of public information about the number and other details of medical incidents in the Mainland and hence the difficulties in determining the insurance premium in the absence of such information. The concern of the medical sector was being relayed to the relevant authority in Guangdong Government.

27. Noting that the Mainland and the HKSAR had agreed to enhance, among other service areas, mutual recognition of professional qualifications and electronic business, Dr Samson TAM called on the Administration to strive to promote mutual recognition of information technology (IT) professional qualifications under CEPA and sought information on progress made on promoting electronic business. In reply, Atg DG/TID advised that to take forward the pilot run of applications of mutual recognition of electronic signature certificates issued by Guangdong and Hong Kong, a working group would be set up to iron out a framework for the mutual recognition of electronic signature certificates issued by both sides. Atg SCED supplemented that the Administration would engage the Mainland authorities on further liberalization in the interests of the trade.

28. The Chairman referred to the 4 trillion Yuan package recently announced by the Central People's Government to expand domestic demand and stimulate the economy with the series of new measures, such as increasing the export tax rebate as well as the reduction or exemption of fees and levies, introduced to cut down the operating costs of businesses. He called on the Administration to keep Hong Kong enterprises posted of the implementation details of the new initiatives so that Hong Kong enterprises could have more lead time to make corresponding adjustments and benefit from these measures. Atg SCED said that the Administration would actively follow up the implementation details and make the best effort to ensure that the trade made good use of them.

29. Mr Paul TSE noted that under CEPA Supplement V, Guangdong Province had been delegated authority to approve applications by HKSS for setting up travel agents on a wholly owned, equity joint venture, or contractual joint venture basis in Guangdong. Referring to the success of the Individual Visit Scheme (IVS) introduced in 2003 and the simplified procedure for obtaining visas in reviving tourism in Hong Kong, Mr TSE called on the Administration to introduce innovative and bold measures to help boost the local tourism industry during this most difficult period. He suggested that consideration be given to expanding the IVS and waiving Hong Kong visa requirements for Mainlanders with no criminal records who had resided in Shenzhen/Guangzhou/cities in the Guangdong Province for three/five years to visit Hong Kong. The Chairman also suggested that Shenzhen residents be allowed to apply for Hong Kong visas through the IVS without having to return to their home province to lodge their visa applications.

30. In response, Atg DG/TID said that under services liberalization and facilitation measures for early and pilot implementation in Guangdong to deepen Guangdong-Hong Kong economic and trade cooperation, Hong Kong travel enterprises authorized by the Mainland would be allowed to organize group tours to Hong Kong for non-Guangdong residents who had resided and worked in private enterprises, joint venture enterprises, or foreign enterprises in Shenzhen for over one year. The effectiveness of these measures would be reviewed in due course. In response to Mr Paul TSE's enquiry about the implementation timetable, Atg SCED said that the Administration had maintained close liaison with the Central and Guangdong Governments and would proactively make the best use of established mechanisms at various levels to ensure effective and early implementation of CEPA and Guangdong-pilot measures.

VI. Update on Cyberport Digital Entertainment Incubation-cum-Training Programme

(LC Paper No. CB(1)201/08-09(06) -- Administration's paper on the update on Cyberport Digital Entertainment Incubation-cum-Training programme

LC Paper No. CB(1)201/08-09(07) -- Paper on the establishment and operation of the Digital Entertainment Incubation-cum-Training Centre at the Cyberport prepared by the Legislative Council Secretariat (background brief)

LC Paper No. CB(1)244/08-09 (*tabled at the meeting and subsequently issued via e-mail on 19 November 2008*) - Administration's paper on Cyberport digital entertainment Incubation-cum-Training programme (power-point presentation material))

Briefing by the Administration

31. At the invitation of the Chairman, the Deputy Commissioner for Innovation and Technology (DCIT) briefed members on the background of setting up the Digital Entertainment Incubation-cum-Training (Incu-Train) Centre, the latest position of the incubation programme, training activities, international networking efforts, as well as the achievements of the Incu-Centre, including international and local industry awards and honours won by current incubates and alumni, as set out in the Administration's paper No. CB(1)201/08-09(06).

32. Head (IT Operations) of the Hong Kong Cyberport Management Company Ltd (H(ITO)/CML) then gave a power-point presentation on the incubated projects and developed products of three incubatees/graduates of different business nature, including an animation-comic company (I Character Limited), a mobile game company (3 Dynamics (Asia)), and a console game company (Play Pen Studio) as well as the training series of the Digital Content Creation Camp.

33. Having regards to the achievements made by the Centre, Atg SCED sought members' support in seeking FC approval to increase the existing funding commitment from $30.8 million by $25.7 million to $56.5 million that would allow the Centre to extend its operation for a period of 36 months from February 2009 to January 2012 (Phase 2), in support of a further 55 digital entertainment or media start-up companies. He said that a visit to the Incu-Train Centre had been arranged for interested members to have a better understanding of the operation of the Centre and to meet with incubatees and alumni of the Incubation-cum-Training Programme (the Programme).

Discussion

34. Ms Starry LEE indicated her support for the Programme in view of the strategic importance of the digital entertainment and digital multimedia sector to the development of creative industries in Hong Kong. Ms LEE however expressed concern about the relatively small income and industry sponsorship received in respect of the Programme. She enquired about the criteria for admission into the Programme, the assessment and review mechanism for the incubated projects, the fees charged for the training activities and various services provided, as well as the efforts made to seek industry support. She urged that more post-incubation support be provided for graduates of the Programme to facilitate their transition into sustainable businesses. Assistance should also be provided in the development of intellectual properties in the digital entertainment industry, which would contribute to the development of creative industries in Hong

Kong. She also called on the Hong Kong Cyberport Management Company Limited (CML) to step up efforts in soliciting industry sponsorship.

35. In response, the Deputy Secretary for Commerce and Economic Development (Communications and Technology) (DS(CT)) and H(ITO)/CML informed the Panel that all applications to join the Programme were vetted by a Vetting Committee comprising digital media professionals, academics, venture capitalists, and trade association members. The incubatees were selected on the basis of the business plans they submitted. In addition, an Advisory Committee (AC) made up of members from the academia, the commercial sector, and the Government was also set up to provide advice and mentoring to incubatees and review their performance. Upon admission to the Programme, the incubatees entered into milestones agreements with the AC and was subject to an incubation period of up to two years, with half-yearly reviews by the AC. After successful completion of the milestones in their project proposals, the incubatees would "graduate" from the incubation programme and become "alumni". Under the Phase 2 Programme, training events would be extended to the alumni at discounted rates, thereby providing continuous professional development to the alumni and facilitating a close network between the incubatees and the alumni for exchange of experience. On the fees charged for the Programme, H(ITO)/CML advised that the Programme received around 75% subsidy. Office space, access to specialized hardware and software facilities, business development advice, legal services, and marketing support were provided to the incubatees at discounted rates throughout the incubation period. On industry support, H(ITO)/CML said that the Programme had received in-kind sponsorship from the industry, which had greatly facilitated the incubatees in their products development and/or business growth. He said that contacts had been established with a number of companies, including the Sony Computer Entertainment, for further industry support. He assured members that CML would continue to actively seek sponsorship from the industry.

36. Dr Samson TAM noted that according to the Hong Kong Digital Entertainment Industry Study 2006-07 published in April 2008, there were about 260 companies, mainly small and medium-sized enterprises in the digital entertainment and digital multimedia sector. As 62 incubatees in the sector had already been admitted by July 2008, Dr TAM sought elaboration on the focus and features of the Phase 2 Programme and enquired whether any new services and training policies would be introduced under the Phase 2 extension. Noting the proposal to increase the percentage of "off-site" incubatees (did not have office space in the Incu-Train Centre but received the same level of support as on-site incubatees) in Phase 2, Dr TAM enquired whether any problems and potential risks had been identified for such an off-site arrangement. He also enquired whether any survey had been conducted to obtain the feedback from incubatees and graduates on the effectiveness of the Programme.

37. In response, H(ITO))/CML informed that while the initial focus of Phase 1 was on digital entertainment and digital multimedia industries, the scope of Phase 2 would be expanded to include creative life style industry such as life style

informatics so that start-up companies of different aspects of creative industries would also benefit from the Programme. In addition, post-incubation support for alumni would be strengthened under Phase 2 by extending the training events to alumni at discounted rates. On "off-site incubation" arrangement, H(ITO)/CML said that in the Internet world nowadays, a physical office space at the Centre might not be necessary for some incubatees in the creative industries which were more in need of financial assistance and other services such as legal and marketing support. As such, "off-site incubation" was introduced in February 2007 to enable incubatees to make a quick start including joining the training activities while awaiting the allocation of office space to be vacated by out-going graduates. So far, about 25% of the incubatees had been admitted on an "off-site" basis. In the light of the experience in "off-site" incubation, it was proposed to admit more companies in each in-take by increasing the percentage of "off-site" incubatees from 25% to 50% so as to maximize the number of beneficiaries. H(ITO)/CML said that such an arrangement would however added to the workload of the Centre staff, who have to conduct company visits to the incubatees' off-site office. On the effectiveness of the Programme, H(ITO)/CML said that the latest survey conducted in August 2008 found that all incubatees graduated from the first and the second in-takes were still in operation with reasonably good business outturn. Most alumni expressed the wish for more post-graduation support in terms of participation in training and networking activities.

38. Dr LAM Tai-fai supported in principle the extension of the Programme into Phase 2. Dr LAM noted that the Centre's operating costs of $9.92 million and staff costs of $7.2 million took up about 40% and 30% of the total funding requirements for Phase 2, which was estimated at $25.7 million. He enquired how the estimated expenditure compared with that of the Phase 1 Programme. In response, H(ITO)/CML advised that the staff costs for Phase 1 Programme was around $6.4 million. As there had not been any salary increase for the contract staff in the past three years, a cost of living adjustment of around 5% had been taken into account for salary costs in Phase 2, bringing the amount to $7.2 million. H(ITO)/CML and DSCE(CT) further pointed out that on the basis of the initial target of 45 incubatees, the unit cost per incubatee in Phase 1 Programme was $684,000 while that of the Phase 2 was $467,400 on the basis of a target intake of 55 incubatees, representing a 30% improvement in cost efficiency.

39. The Chairman expressed support for the funding proposal. Noting that a total of 381 new jobs had been created according to a survey conducted in August 2008, the Chairman enquired about the nature of the jobs thus created. H(ITO)/CML informed that the jobs were mainly in the digital entertainment and digital multi-media sector such as games and animation artists/masters/producers.

Summing up

40. Summing up, the Chairman said that members supported in principle the proposal to seek FC approval to increase the funding commitment for the Incu-Train Centre by $25.7 million to extend the project period by 36 months to

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end-January 2012.

41. The Chairman noted that so far only two members including himself had indicated interest in the visit to the Centre scheduled for 21 November 2008. He invited members who were interested in the visit to confirm their attendance with the Secretariat as soon as possible.

(*Post-meeting note*: With the concurrence of the Chairman, the visit scheduled for 21 November 2008 was cancelled since only two members had indicated interest in the visit. Members were notified of the cancellation vide LC Paper No. CB91)240/08-09 on 19 November 2008.)

VII. Any other business

42. There being no other business, the meeting ended at 4:35 pm.

Council Business Division 1
Legislative Council Secretariat
19 February 2009