

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1809/11-12  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/CI/1

**Panel on Commerce and Industry**

**Minutes of meeting**  
**held on Tuesday, 17 April 2012, at 2:30 pm**  
**in Conference Room 3 of the Legislative Council Complex**

**Members present** : Hon Vincent FANG Kang, SBS, JP (Deputy Chairman)  
Hon Fred LI Wah-ming, SBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Andrew LEUNG Kwan-yuen, GBS, JP  
Hon CHIM Pui-chung  
Hon Starry LEE Wai-king, JP  
Dr Hon LAM Tai-fai, BBS, JP  
Dr Hon Samson TAM Wai-ho, JP  
Hon Tanya CHAN  
Hon Albert CHAN Wai-yip

**Members absent** : Hon WONG Ting-kwong, BBS, JP (Chairman)  
Hon Timothy FOK Tsun-ting, GBS, JP  
Hon Ronny TONG Ka-wah, SC  
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

**Public officers attending** : Agenda item IV  
Miss Janet WONG, JP  
Commissioner for Innovation and Technology

Prof YUE On-ching  
Science Advisor  
Innovation and Technology Commission

Mr Davey CHUNG  
Assistant Commissioner for Innovation and  
Technology

Agenda item V

Mr Andrew WONG, JP  
Permanent Secretary for Commerce and Economic  
Development (Commerce, Industry and Tourism)

Mrs Alice CHEUNG  
Deputy Secretary for Commerce and Economic  
Development (Commerce & Industry)<sup>3</sup>

Ms Carol YUEN, JP  
Deputy Director-General of Trade and Industry  
(Commercial Relations, Controls and Support)

**Attendance by  
invitation**

: Agenda Item IV

Hong Kong Research Institute of Textiles and  
Apparel

Mr Haider BARMA, GBS, CBE, JP  
Chief Executive Officer

R&D Centre for Logistics and Supply Chain  
Management Enabling Technologies

Mr Simon K Y WONG  
Chief Executive Officer

Nano and Advanced Materials Institute

Prof NG Ka-ming  
Chief Executive Officer

Automotive Parts and Accessory Systems R&D  
Centre

Dr YANG Ying  
Chief Executive Officer

Hong Kong Applied Science and Technology  
Research Institute

Ms Betty LAW Tsui-ping  
Chief Financial Officer

**Clerk in attendance** : Ms YUE Tin-po  
Chief Council Secretary (1)3

**Staff in attendance** : Miss Rita YUNG  
Council Secretary (1)3

Ms May LEUNG  
Legislative Assistant (1)3

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Action

The Deputy Chairman took over the chair in the absence of the Chairman who was unable to attend the meeting.

**I. Confirmation of minutes of meeting**

(LC Paper No. CB(1)1547/11-12 -- Minutes of meeting held on  
21 February 2012)

2. The minutes of the meeting held on 21 February 2012 were confirmed.

**II. Information papers issued since last meeting**

(LC Paper No. CB(1)1406/11-12(01) -- Submission from a member  
*(Chinese version only)* of the public on Fairtrade  
Town dated 15 March 2012

LC Paper No. CB(1)1486/11-12(01) -- Administration's paper on  
United Nations Sanctions  
(Democratic Republic of

the Congo) Regulation  
2012)

3. Members noted that the above papers had been issued since the last meeting.

**III. Date of next meeting and items for discussion**

(LC Paper No. CB(1)1549/11-12(01) -- List of outstanding items for discussion

LC Paper No. CB(1)1549/11-12(02) -- List of follow-up actions)

4. Members noted that the next regular Panel meeting would be held on 15 May 2012 at 2:30 pm to discuss the item "Trade relations between the Mainland and Hong Kong".

*(Post-meeting note: At the request of the Administration and with the concurrence of the Chairman, the discussion of the above item would be deferred to the June meeting.)*

**IV. Funding proposals for Research and Development Centres**

(LC Paper No. CB(1)1549/11-12(03) -- Administration's paper on funding proposals for Research and Development Centres

LC Paper No. CB(1)1549/11-12(04) -- Paper on Research and Development Centres set up under the Innovation and Technology Fund prepared by the Legislative Council Secretariat (updated background brief))

Presentation by the Administration

5. At the invitation of the Deputy Chairman, Commissioner for Innovation and Technology (CIT) briefed members on the funding proposals for extending the operation of the Research and Development (R&D) Centres set up under the Innovation and Technology Fund (ITF), as set out in the Administration's paper (LC Paper No. CB(1)1549/11-12(03)).

Discussion

6. Mr Jeffrey LAM called on the Administration to take the lead to adopt more local R&D results in government departments. He also opined that the Administration should establish an innovation and technology bureau specially tasked to co-ordinate and formulate Hong Kong's overall strategy of developing innovation and technology. The Administration should also further explore the co-operation between Hong Kong and the Mainland in innovation and technology under the Mainland and Hong Kong Closer Economic Partnership Agreement, and to increase the funding level and flexibility of ITF to encourage R&D in the industry.

7. CIT responded that it would be difficult to give priority or special treatment to adopt local R&D results under the Government procurement policy, as Hong Kong was a founding member of the World Trade Organization (WTO) and was bound by the WTO agreements. Nevertheless, the Administration was keen to facilitate the trial of R&D products in the public sector, i.e. government departments, public organizations and trade associations. The scope of ITF funding was hence extended to cover production of prototypes/samples and conducting of trial schemes. Examples of the use of R&D deliverables in the public sector included the E-lock system developed by the R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM) for the Customs and Excise Department, and the solar cell demonstration system of the Nano and Advanced Materials Institute (NAMI) installed at the Tseung Kwan O Hospital. On commercialization of R&D deliverables, the Hong Kong Research Institute of Textiles and Apparel (HKRITA) had issued non-exclusive licenses to three companies for use of the Nu Torque™ Singles Ring Yarns Technology at a total licensing fee exceeding \$5 million. The Hong Kong Applied Science and Technology Research Institute (ASTRI) had licensed its compact anti-shaking technologies for camera phones to a company which offered a minimum licence fee-cum-royalty income of US\$2 million.

8. CIT advised that the Administration had already completed the first phase of the review of ITF's funding mechanism, including refining the ITF project vetting criteria and shortening the ITF process. The Administration would proceed to review the monitoring mechanism of the ITF projects. The Administration had also conducted a review on the Small Entrepreneur Research Assistance Programme under ITF, which was specially designed to support the small and medium enterprises in pursuing R&D activities. Having considered the views from fund recipients, trade associations and assessors of the programme, the Administration had implemented

enhancements in April 2012, including increasing the funding ceiling for each project from \$4 million to \$6 million, and expanding the funding scope to facilitate commercialization, covering industrial designs, testing and certification of prototypes, pre-clinical trials and etc.

9. The Deputy Chairman and Dr Samson TAM expressed concern about the low number of collaborative projects undertaken by HKRITA and LSCM and the low level of industry contribution during their first five-year period respectively. Chief Executive Officer, HKRITA advised that the performance of HKRITA had improved starting from 2011-2012 with two new collaborative projects commencing. Another four to five collaborative projects were under discussion with potential partners currently. The level of industry contribution in 2011-2012 was 23%. He was confident that HKRITA could achieve an industry contribution target of around 18% by 31 March 2015. Chief Executive Officer, LSCM advised that LSCM anticipated that commercialization activities would gradually increase as effort would be put into transferring technologies to industries. Its R&D programme would be driven in a demand-led direction. LSCM would first identify the "gap" between research and actual industrial realization. Collaborative projects, prototype/trial scheme projects, and industry-funded contract research projects would be conducted to bridge these gaps to drive commercialization. To align with the strategic initiatives of attracting industry contribution and commercialization of its R&D projects, the PR & Communication Team of LSCM would kick start a series of publicity and promotion programmes in 2012-2013.

10. Ms Emily LAU expressed concern about the Administration's proposed arrangements for HKRITA and LSCM. In response, CIT advised that the Administration proposed to extend the operation of HKRITA and LSCM beyond 31 March 2014 (viz. when their current approved funding commitment expired) for one year up to 31 March 2015. This was to allow more time for the two Centres to "catch up" on their performance and prove whether they should continue to operate. The Administration would continue to closely monitor or review the performance of the two Centres after 31 March 2013 (i.e. two years after the last round of review). If by then they managed to meet the industry contribution target of 18% and could satisfy the Controlling Officer in terms of overall performance, the Administration would consider how to support and sustain their further operation for an appropriate period.

11. Dr Samson TAM expressed support for the funding proposals for extending the operation of the R&D Centres. He considered that the industry contribution level should not be taken as the sole performance target for the R&D Centres. They should be more proactive in commercialization

and technology transfers. In this connection, he enquired how the performance of the R&D Centres would be assessed.

12. In response, CIT advised that on commercialization and technology transfers, areas of assessment might include industry income from licensing fees, royalty payments and contract research, number of companies granted with technology licences, etc. Since the work of commercialization was still at a relatively early stage, the Administration had not set common and specific targets for the R&D Centres at this stage. The Administration would take a critical look at the long-term funding arrangements for the R&D Centres and consult the Panel in due course.

13. Ms Emily LAU enquired about the comparison of the government's policy in promoting the development of innovation and technology between Hong Kong and Singapore. Chief Executive Officer, NAMI considered that given the unique history and development in Hong Kong and Singapore respectively, different measures in R&D development should be adopted accordingly. The R&D Centres should collaborate effectively with other economies to create synergies to advance science and technology. Over the years, Hong Kong had established technological co-operation frameworks with the Mainland at the central, provincial and municipal levels.

14. CIT and Science Advisor, Innovation and Technology Commission responded that on R&D development, both Singapore and Hong Kong were well endowed. Both places possessed a sound legal system, enjoyed a free flow of information, and had access to a pool of talent with good language skills, etc. Singapore had its own advantages, such as larger manufacturing base. Hong Kong was a service-driven economy, and its manufacturing sector dominated by original equipment manufacturing contributed to less than 2% of the gross domestic product (GDP) in 2010, compared with 22% in Singapore. Unlike many overseas jurisdictions, including Singapore, Hong Kong had a relatively low level of R&D investment as it did not have a need to invest in national defence. Hong Kong's gross domestic expenditure on R&D for 2010 stood at US\$1.7 billion, which was 0.76% of its GDP. Nevertheless, the Administration had kept track of the international indicators on innovation and technology as well as R&D development and measures in other regions as a reference to further enhance its efforts in promoting innovation and technology.

15. CIT supplemented that with the access to the huge domestic market in the Mainland, especially with the Pearl River Delta region as the hinterland, Hong Kong was well-positioned to develop science and technology. In fact, innovation and technology was one of the focused areas for development under the National 12th Five-Year Plan. This had brought tremendous

development opportunities for the local R&D sector.

16. Mr Albert CHAN said that the contribution of the industrial sector was low and the value added to GDP as well as the number of employees in this sector had been decreasing. He expressed disappointment that the Administration failed to formulate an industrial policy and had made little effort in assisting the industrial sector, thus undermining the development of industry of Hong Kong. He opined that in addition to promoting R&D development, the Administration should also encourage local manufacturing of R&D deliverables, so as to create more job opportunities for grass root people. He expressed objection to the Administration's funding proposals for extending the operation of the R&D Centres.

17. In response, CIT advised that due to scarcity of land and cost reasons, etc, Hong Kong was no longer a suitable location for mass manufacturing. The Administration would continue to promote high value-added manufacturing industries to enable Hong Kong's economy to move up the value chain. Provision of land for industrial estates was part of the Administration's strategy. The Administration had invited the Hong Kong Science and Technology Parks Corporation to explore the feasibility of expanding the Yuen Long Industrial Estate by about 16 hectares.

18. The Deputy Chairman considered that innovation and technology was important to the community including the servicing industry and small and medium enterprises. Enhancing R&D and innovation capability required long-term investment, and that the Administration should allocate more resources to R&D development and step up its efforts in promoting commercialization of R&D results and technology transfer. CIT responded that the R&D expenditure by the public sector (including Government and higher education sectors) had continued to increase at an average annual growth rate of 4.7%, from \$5 billion in 2001 to \$7.5 billion in 2010.

19. Ms Emily LAU suggested that the Panel should discuss the Government's policy, commitment, strategy, direction and approach in promoting the development of innovation and technology at the next regular Panel meeting to be held on 15 May 2012. At Ms LAU's request, CIT agreed to provide information on the statistics on R&D in Hong Kong (especially gross expenditure on R&D) as well as policy/strategy in promoting innovation and technology in Hong Kong.

*(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)1760/11-12(01) on 4 May 2012. The Panel would meet with the Administration and receive views from stakeholders from the industry, academia and*



research sector on "Promotion of innovation and technology in Hong Kong" at the May meeting.)

20. The Deputy Chairman concluded that the majority of the Panel members supported in principle the Administration's funding proposals for extending the operation of the R&D Centres.

**V. Dedicated fund on branding, upgrading and domestic sales**

(LC Paper No. CB(1)1549/11-12(05) -- Administration's paper on dedicated fund on branding, upgrading and domestic sales

LC Paper No. CB(1)1298/11-12(03) -- Administration's paper on dedicated fund on branding, upgrading and domestic sales

LC Paper No. CB(1)1549/11-12(06) -- Extract of minutes of meeting on agenda item IV on 20 March 2012

LC Paper No. CB(1)1298/11-12(04) -- Paper on the support for Hong Kong enterprises in branding, upgrading and domestic sales prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

21. At the invitation of the Deputy Chairman, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) briefed members on the effectiveness, expected economic benefits and possible job opportunities to be brought about by the proposed \$1 billion dedicated fund on branding, upgrading and domestic sales (the BUD fund), as set out in the Administration's paper (LC Paper No. CB(1)1549/11-12(05)).

Discussion

22. Mr Andrew LEUNG welcomed the Administration's proposal to set up the BUD fund. He considered that the BUD fund would assist Hong

Kong enterprises in enhancing competitiveness and exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland. He called on the Administration to launch the BUD fund as soon as practicable to provide timely assistance to the small and medium enterprises (SMEs) in Hong Kong.

23. In response, PSCIT advised that through the contacts with various trade associations, the Administration understood that many Hong Kong SMEs would like to explore the Mainland domestic market but considered that entering the Mainland market was not an easy task. These SMEs hoped that more assistance could be provided to help them develop their brands in the Mainland domestic market. The BUD fund would be able to provide timely support to Hong Kong enterprises.

24. Ms Emily LAU noted that the Administration had difficulty in providing an accurate estimate on the number of enterprises to be benefited and job opportunities to be created under the enterprise part of the BUD fund at this stage as it would depend on various factors, including the number of applications approved, the amount of funding approved, the nature of the application and the sector(s) involved, etc. On the applications approved under the BUD fund, Ms LAU enquired whether the Administration would compile statistics by requiring the applicant enterprises to provide the requisite information (such as the number of offices and job opportunities to be created in Hong Kong), so as to facilitate the evaluation of the effectiveness and economic benefits to be brought about by the BUD fund to the overall economy of Hong Kong. PSCIT replied in the positive and agreed to elaborate on this point in the paper to be submitted to the Finance Committee.

25. Dr LAM Tai-fai expressed support for the Administration's proposal. He also expressed concern whether SMEs would face difficulty in preparing a holistic business plan when applying for the BUD fund. In this connection, he asked whether the Administration had sufficient knowledge and experience in branding, upgrading and domestic sales for the consideration and approval of the applications. Dr LAM also opined that the Administration should simplify the application procedures to facilitate the application for the BUD fund by SMEs, provide other non-financial support to help SMEs in developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland, and consider raising the cumulative funding ceiling of \$500,000 per enterprise. Ms Starry LEE also expressed support for the BUD fund, and enquired whether there would be representatives from SMEs in the Programme Management Committee (PMC) to be set up to oversee the implementation of the

enterprise part of the BUD fund.

26. Noting that SMEs might suffer hardship in their operations in times of the fluctuating external economic environment, Mr Jeffrey LAM considered that the BUD fund would assist Hong Kong enterprises in enhancing competitiveness and exploring and developing the Mainland market as well as promoting domestic sales in the Mainland. He called on the Administration to consider raising the cumulative funding ceiling of \$500,000, and to give priority to enterprises which were carrying out or well-prepared to carry out specific measures in branding, upgrading and domestic sales when considering the applications.

27. PSCIT responded that a balance would be struck between the need for monitoring the proper use of public funds and the need to prevent complicated application procedures, which might deter SMEs from applying for the BUD fund. Applicant enterprises might apply for funding to engage a qualified service provider to help develop a holistic business plan when applying for the BUD fund. PSCIT advised that all applications of the enterprise part of the BUD fund would be considered by PMC. The membership of PMC would be drawn from, inter alia, the trade, SME associations, and those with expertise or experience in branding, upgrading and restructuring and/or domestic sales in the Mainland.

28. PSCIT supplemented that the BUD fund also provided funding support to non-profit-distributing organizations (e.g. trade and industrial organizations, professional bodies or research institutes) to undertake projects which could assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading/restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their competitiveness in the Mainland market. The Trade and Industry Department (TID), the Hong Kong Economic and Trade Offices in the Mainland and the Hong Kong Trade Development Council (HKTDC) provided Hong Kong enterprises with useful information and analysis including market and industry news, and information on the policy and regulations of the Mainland authorities, etc. HKTDC also offered China Business Advisory Service to help Hong Kong SMEs in exploring and developing the Mainland market.

29. PSCIT advised that the Administration had consulted various trade and industrial organizations, SME associations and related parties in drawing up the operational details of the BUD fund. Having taken into account the trade's views, the Administration had already raised the funding ceiling from \$300,000 to \$500,000. The Administration would keep in view the response to the BUD fund and review its operation as and when necessary. PSCIT

added that whether the applicant enterprise could implement the proposed project promptly would also be taken into account when considering the applications.

30. In response to the Deputy Chairman's enquiry, PSCIT advised that the Administration would disburse the Hong Kong Productivity Council (HKPC) the bulk of the expenses incurred in providing the secretariat services for the enterprise part of the BUD fund, while HKPC would be responsible for the rest of the relevant expenditures (including assigning officers to supervise, monitor and review the work of the secretariat, providing part of the manpower requirement for the secretariat, and providing venues for activities).

31. Dr LAM Tai-fai enquired how the effectiveness of the BUD fund could be evaluated. PSCIT responded that brand development was not an easy task and would require a long time to achieve results. HKPC would monitor the progress of the approved projects of the BUD fund. Depending on the duration of the projects, interim progress reports and annual audited accounts might be required. To ensure the effective implementation of the relevant measures proposed by the applicant enterprises, HKPC would conduct on-site checking of selected projects, apart from reviewing progress and final reports submitted by the enterprises.

32. To safeguard the interests of SMEs in Hong Kong, Ms Emily LAU considered that the BUD fund should be focused to assist SMEs but not those large non-listed enterprises. PSCIT advised that taking reference from the statistics of the SME funding schemes administered by TID, over 95% of the successful applications were from SMEs.

33. Dr LAM Tai-fai considered that many Hong Kong enterprises were deterred from restructuring into import processing operations as they were unable to claim the depreciation allowances in respect of their machinery or plants used in import processing operations in the Mainland. He opined that the Administration should amend section 39E of the Inland Revenue Ordinance (Cap. 112) to facilitate the upgrading and restructuring of these enterprises. PSCIT responded that the Administration would reply to a question raised by Dr LAM Tai-fai in relation to the issue on depreciation allowances at the Council meeting to be held on 18 April 2012.

34. The Deputy Chairman said that the business sector welcomed the setting up of the BUD fund. He considered that the BUD fund would assist local SMEs, such as some small-sized design companies, to develop their brands and tap the Mainland domestic market. He called on the Administration to launch the BUD fund within this legislative year to provide

timely assistance to Hong Kong SMEs.

35. The Deputy Chairman concluded that the Panel supported in principle the Administration's proposal to set up the BUD fund.

**VI. Any other business**

36. There being no other business, the meeting ended at 4:14 pm.

Council Business Division 1  
Legislative Council Secretariat  
10 May 2012