

**立法會**  
**Legislative Council**

LC Paper No. CB(1)677/16-17(05)

Ref. : CB1/PL/CI

**Panel on Commerce and Industry**

**Meeting on 21 March 2017**

**Background brief on  
policy on re-industrialization and the development of the Industrial Estates  
and Hong Kong Science Park**

**Purpose**

This paper provides background information on the policy of re-industrialization and updated information on the development of the Industrial Estates ("IEs") and Hong Kong Science Park ("HKSP"). It also gives a summary of views and concerns expressed by Members on the subjects in previous discussions.

**Background**

2. In 2014, in conjunction with the Hong Kong Science and Technology Parks Corporation ("HKSTPC"),<sup>1</sup> the Government reviewed the utilization and long-term development direction of HKSP and IEs ("the Review"). With regard to the provision of infrastructure, the Review recommended, among other things, that HKSTPC should –

- (a) maximize the development potentials of the existing HKSP site by constructing new buildings to increase the gross floor area ("GFA"); and

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<sup>1</sup> Hong Kong Science and Technology Parks Corporation ("HKSTPC") is a statutory body established in 2001 with a public mission to facilitate the establishment and the nurturing of a world-class technology community dedicated to applied research and development in Hong Kong, and to strengthen Hong Kong's position as a regional technology hub by promoting innovation, technology development and commercialization of five technology clusters, namely electronics, information technology and telecommunications, precision engineering, biotechnology, and green technology. The Government is the sole shareholder of HKSTPC which is governed by a Board of Directors appointed by the Government. HKSTPC operates and manages the Hong Kong Science Park, three Industrial Estates and the InnoCentre at Kowloon Tong.

- (b) use the land in the three IEs<sup>2</sup> more efficiently to support science, innovation and technology ("I&T") based industries which would bring wider benefits to Hong Kong.

3. In the 2015 Policy Agenda, the Government announced that it would implement the recommendations of the Review, including strengthening the role of HKSPTC in developing the I&T ecosystem; suitably raising the development density of HKSP to optimize land use in the park for the development of new research and development ("R&D") facilities; and proceeding with the formulation of a new IE policy to enhance the value chain of the I&T industries in Hong Kong and further revitalize IEs.

### Hong Kong Science Park

4. HKSP is Hong Kong's flagship technology infrastructure which provides facilities, services and a dynamic environment that enable companies to nurture ideas, innovate and develop. HKSP has been offering its facilities and support services through a clustering strategy since its establishment. As at April 2016, 245 firms were enrolled in HKSP's incubation programmes while 405 start-up companies had graduated from them.

5. Phase 1 of HKSP (with a GFA of 120 000 square metres ("sq m")), Phase 2 (with a GFA of 105 000 sq m) and Phase 3 (with a GFA of 105 000 sq m) were completed in 2004, 2011 and April 2016 respectively. On completion of all three phases, the total GFA of HKSP is 330 000 sq m. As at the end of April 2016, the occupancy rates for Phase 1 and Phase 2 were 91.6% and 87.8% respectively. For Phase 3, with about 75% of the GFA completed, the occupancy rate stood at 72.5%. At the then take-up rate, the Administration estimated that all three phases of HKSP would be fully occupied by 2017-2018.

### *Stage 1 of the Science Park Expansion Programme*

6. To meet the strong demand for space for R&D activities, the Administration proposed to develop Stage 1 of the Science Park Expansion Programme ("SPX1"). The site for SPX1 covers about 1.18 hectares on the vacant western corner of the Phase 3 site and the existing transport terminus. SPX1 involves the construction of two building blocks (14-storey and 15-storey) in HKSP, at an estimated development cost of \$4.428 billion. Upon completion of the expansion, the total GFA of HKSP will increase from 330 000 sq m to approximately 400 000 sq m.

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<sup>2</sup> The three Industrial Estates ("IEs") are Tai Po IE, Yuen Long IE and Tseung Kwan O IE with area of 75 hectares, 67 hectares and 75 hectares respectively.

*Previous discussions by Members*

7. The Administration briefed the Panel on Commerce and Industry ("the Panel") at the meeting on 15 December 2015 on the plan to expand the existing HKSP in three stages and sought the approval of the Finance Committee ("FC") on 28 May 2016 for the proposed financing arrangements for SPX1.

8. At the Panel meeting, referring to the cost overrun problems of many public works projects in recent years, some members enquired whether the Administration had any fallback financing arrangements for cost overrun of SPX1. The Administration advised that the amount of equity injection from the Administration would be capped at \$2,878 million.<sup>3</sup> The Administration added that if the project cost of SPX1 eventually exceeded the amount, no further funding support would be provided by the Government and HKSTPC was expected to resort to its own means to identify project cost savings and seek extra funding means.

9. Noting that all three phases of HKSP would be expected to be fully occupied by 2017-2018, while SPX1 was planned to be completed by 2020, some members enquired about the provision of land for the development of I&T industries in the interim and in the long run. The Administration advised that it would continue to identify suitable sites for R&D and related uses as and when necessary. In the long term, sites had been reserved in the Kwu Tung North New Development Area ("NDA"), Lok Ma Chau Loop Area and Hung Shui Kiu NDA for development of high-tech industries and R&D facilities.

10. At the FC meeting, members enquired how the Administration would monitor SPX1 to ensure that the project would not experience cost overruns and delays. The Administration advised that while the Government's representative in the Board of Directors of HKSTPC would oversee the project, the Projects and Facilities Committee established under HKSTPC was tasked with the monitoring of the expansion programme. In the case where project tender cost exceeded the allocated funding eventually, HKSTPC would amend project designs as appropriate to reduce construction cost, or seek extra financing through commercial borrowing. After the meeting, the Administration submitted a follow-up paper (LC Paper No. FC243/15-16(01)) to explain how it would effectively monitor the project.

11. Some other members at the FC meeting asked why the Government had to provide additional guarantee for the borrowing made by HKSTPC while

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<sup>3</sup> The Administration proposed that a commitment to inject \$2,878 million as equity from the Capital Investment Fund; and a guarantee by the Government for a commercial loan amounting to \$1,107 million and the interest arising therefrom be approved to HKSTPC to support Stage 1 of the Science Park Expansion Programme ("SPX1"). HKSTPC would also finance 10% of the project cost with its internal resources to demonstrate its commitment to SPX1.

direct funding had been provided at the same time, and why the option of capital injection in full by the Government was not chosen instead. The Administration advised that HKSTPC considered it difficult to raise funds in full for the expansion of HKSP by way of commercial borrowing after taking into account its financial situation. Furthermore, in preparing the financial arrangements, the Government had considered various options such as direct borrowing by HKSTPC, provision of loan guarantee by the Government to HKSTPC, or capital injection by the Government.

12. Subsequently, with the approval of FC at its meeting on 28 May 2016, the construction works of SPX1 commenced in August 2016 and are expected to be completed by 2020.

### Industrial estates

13. Pursuant to the recommendation of the Review that HKSTPC should use the land in the three IEs more efficiently to support science, I&T based industries, the Government revised the IE policy ("Revised IE Policy") to accommodate I&T industries. In future, HKSTPC would mainly build and manage specialized multi-storey industrial buildings for rental to multiple I&T industrial partners. According to the Administration, except under exceptional circumstances, HKSTPC will not grant the sites to single users to build their own factories. The rental charges (or land premium in the case of land granted on long lease in exceptional cases) would be competitively priced, having regard to prevailing market conditions and other relevant factors, instead of linking to the historical land development costs.

### *Two pilot projects in Tseung Kwan O Industrial Estate*

14. In June 2015, HKSTPC considered its overall road map in implementing the Revised IE Policy and decided, as a pilot, to develop the following projects on two vacant sites in Tseung Kwan O IE ("TKOIE") –

- (a) a multi-storey Advanced Manufacturing Centre ("AMC") with a GFA of about 108 588 sq m on a 2.71 hectares site; and
- (b) a Data Technology Hub ("DT Hub") with GFA of about 27 015 sq m on a 0.54 hectare site.

According to the Administration, AMC will focus on selected high value-added manufacturing with extended activities including R&D, logistics support, prototyping and design, etc. On the other hand, DT Hub aims to accommodate uses ancillary or complementary to the data transfer operations and global telecommunications at the data centres and switching centres at TKOIE and Hong Kong. Special features will be designed to cater for data centre support, multi-media processing, submarine cable landing related needs as well as R&D activities in these fields.

*Previous discussions by Members*

15. The Administration briefed the Panel at the meeting on 17 May 2016 on the Administration's plan to develop AMC and DT Hub in TKOIE. The relevant funding proposals were approved by FC on 28 May 2016.

16. Given the rising demand for data centres worldwide, some Panel members enquired whether the Administration had assessed if the existing total floor area available for the development of data centres would be sufficient in the next five to 10 years. The Administration replied that it would make available vacant greenfield sites for sale to facilitate the development of data centres and one of the sites due for sale was in Tseung Kwan O. Moreover, the waiver fee originally charged for converting industrial buildings into data centres had been removed. Data centres were also encouraged to consider other modes of operation, for example using advanced technology or modular equipment. After the meeting, vide LC Paper No. CB(1)1024/15-16(01), the Administration advised that the GFA of local data centres had exceeded 460 000 sq m. The Government had reserved three pieces of land in Tseung Kwan O Area 85 for the development of high-tier data centres. It was expected that an additional floor area of around 160 000 sq m could be provided in the coming few years to meet market demand.

17. Noting that some tenants of IEs in Hong Kong had moved the manufacturing process of their industries to the Mainland and used the IE sites for storage or as offices, some members raised questions about the tenancy agreements of IEs. The Administration advised that to ensure efficient utilization of IE land, HKSTPC had been encouraging those tenants who were not fully utilizing their sites to consider starting new projects or surrendering their sites to HKSTPC. In recent months, some tenants had already surrendered their IE sites to HKSTPC.

18. At the FC meeting, some members enquired how the Administration would assist enterprises to move to AMC and the DT Hub located in TKOIE, and how the tenants would be selected. Other members urged the Administration to actively promote AMC and DT Hub to the industry, so that the industry would better understand the merits of the two venues.

19. The Administration advised that AMC would provide the ancillary facilities required for the development of smart manufacturing, including the expensive clean room facility and dual power supply system. This in turn would reduce the operating cost of the enterprises and assist them in setting up plants in AMC. The Administration aimed to lease AMC to enterprises engaging in the development of advanced manufacturing, including small and medium enterprises ("SMEs"). It was expected that the lease term would be longer given the longer duration of machine setting for the manufacturing sector in general.

20. HKSTPC is currently working on the detailed design of these projects. DT Hub is expected to be completed in 2020 and AMC in 2021-2022.

*Council question*

21. At the Council meeting of 2 December 2015, Mr Charles MOK asked an oral question, among other things, about the measures currently taken by HKSTPC to increase the land for accommodating the production facilities of high-end manufacturing industries.

22. The Administration advised that apart from the Revised IE Policy, to better utilize the land resources in IEs, HKSTPC had negotiated with some factory operators in IEs and obtained their agreement to surrender some of the unused plot ratio involving a permissible GFA of approximately 70 000 sq m. HKSTPC had also launched a pilot scheme in May 2015 to encourage factory operators to surrender premises which had not been fully utilised. So far, the applications for surrender received involve a GFA of about 50 000 sq m.

Re-industrialization policy

23. In the 2016 Policy Address, the Chief Executive ("CE") first introduced the initiative of re-industrialization and announced that it was a potential new area of economic growth for Hong Kong. To grasp the opportunities brought about by the fast development in information and communications technology and Internet of Things ("IoT") technologies, the Government hoped to attract high value-added industries that were suitable to be based in Hong Kong so that traditional labour-intensive industry could migrate to smart production. Given Hong Kong's traditional manufacturing knowhow and quality standards, Hong Kong had potential in moving towards high-end, highly-customized and high-growth technology areas such as robotics, medical and health-related industries, environmental solutions, as well as the new generation of consumer products embedded with IoT technologies.

24. To promote re-industrialization, CE announced that apart from implementing the Revised IE Policy (details in paragraph 13), the Hong Kong Productivity Council ("HKPC") would also facilitate industrial upgrading and transformation, enabling enterprises to embrace re-industrialization and move towards high value-added production. On testing and certification, measures would also be introduced in 2016 to exempt relevant waiver fees to facilitate the operation of laboratories in industrial buildings.<sup>4</sup>

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<sup>4</sup> The Government announced on 25 January 2016 that to facilitate the operation of testing and calibration laboratories ("testing laboratories") in industrial buildings, the Government will exempt the waiver fee that would otherwise be chargeable for issuing waivers to allow the use of the entirety or part(s) of an industrial building under a general industrial land lease as testing laboratories. Applications under the new measure may be submitted to the Lands Department from 1 February 2016. They are subject to the payment of an administrative fee.

25. In the 2017 Policy Address, CE reported the progress of re-industrialization. Apart from AMC and DT Hub in TKOIE (details in paragraph 14), the Government had also introduced the Technology Voucher Programme<sup>5</sup> in November 2016 to subsidize the use of technology by SMEs to improve productivity or facilitate upgrading and transformation.

26. Furthermore, the Government would establish an Inno Space with HKPC to facilitate the sharing of practical technologies and skills to promote the translation of I&T ideas into industrial designs or products, and support a start-up culture and re-industrialization. The Government had also set aside sizable sites, including one of over 50 hectares near the Liantang/Heung Yuen Wai Boundary Control Point ("LT/HYWBCP"), for use by the I&T sector (including the development of a science park and IEs) and other emerging or traditional industries.

#### *Previous discussions by Members*

27. When the Panel was briefed on the policy initiatives at its meeting on 19 January 2016, some members enquired about the focus of the re-industrialization initiative. The Administration advised that the initiative would focus on three specific areas, namely, "Smart City", "robotics" and "healthy ageing" as Hong Kong possessed strengths in the areas of "Smart City" and "robotics" while the area of "healthy ageing" was underpinned by strong internal and external demand for relevant technologies and products due to the global trend of rapid ageing.

28. The Administration briefed the Panel at its meeting on 25 January 2017 on the policy initiatives of the the 2017 Policy Address. According to the Administration, HKSTPC was conducting a preliminary planning study to look into the suitability of developing the site near LT/HYWBCP. As industries enjoying advantages in the process of Hong Kong's re-industrialization included biotechnology, big data, IoT, artificial intelligence and smart city, the Administration was drawing up a list of target companies and universities in the Mainland and overseas, and would strive to attract their presence in Hong Kong in cooperation with Invest Hong Kong and the various Economic and Trade Offices, thereby strengthening the development of these industries.

#### *Council question*

29. In the aforementioned oral question asked by Mr Charles MOK at the Council meeting of 2 December 2015, Mr MOK also enquired about the

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<sup>5</sup> The Technology Voucher Programme will be implemented for an initial period of three years with \$500 million. It provides funding up to \$200,000 for each eligible small and medium enterprise ("SME") on a 2:1 matching basis. Subject to the cumulative funding ceiling, up to three projects from an SME may be approved. Each project should normally be completed within 12 months.

authorities' measures to promote re-industrialization in Hong Kong.

30. The Administration advised that the Revised IE Policy was one of the measures in promoting re-industrialisation in Hong Kong. As innovative application and technological development were the driving forces for industrial upgrading and restructuring, the Innovation and Technology Bureau would seize the opportunities brought about by re-industrialisation and the development of IoT to promote smart manufacturing.

### **Latest position**

31. The Administration will brief the Panel on 21 March 2017 on the Government's re-industrialization policy, the latest development of IEs and other measures to support re-industrialization, as well as the implementation progress of SPX1 and other related initiatives of HKSTPC, in particular those relating to re-industrialization.

### **Relevant papers**

32. A list of relevant papers is in the **Appendix**.

Council Business Division 1  
Legislative Council Secretariat  
15 March 2017



## List of relevant papers

Date of meeting	Meeting	Paper
2/12/2015	Council	Question No. 6 on "Development of high-tier data centres and high-end manufacturing industries" raised by Hon Charles MOK ( <a href="#">Hansard</a> ) (Page 2420-2430)
15/12/2015	Panel on Commerce and Industry	<p>Administration's paper on "Further development of Hong Kong Science Park" (<a href="#">LC Paper No. CB(1)279/15-16(05)</a>)</p> <p>Background brief on the development of the Hong Kong Science Park prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)279/15-16(06)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)548/15-16</a>)</p>
19/1/2016	Panel on Commerce and Industry	<p>Administration's paper on "2016 Policy Address - policy initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau" (<a href="#">LC Paper No. CB(1)436/15-16(03)</a>)</p> <p>Administration's paper on "2016 Policy Address - policy initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation" (<a href="#">LC Paper No. CB(1)436/15-16(04)</a>)</p> <p>Administration's paper on "2016 Policy Address - policy initiatives of Innovation and Technology Bureau" (<a href="#">LC Paper No. CB(1)436/15-16(05)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)665/15-16</a>)</p>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
17/5/2016	Panel on Commerce and Industry	<p>Administration's paper on "Implementation of pilot projects according to the Revised Industrial Estate Policy"  <a href="#">(LC Paper No. CB(1)901/15-16(03))</a></p> <p>Background brief on the implementation of the revised Industrial Estate Programme prepared by the Legislative Council Secretariat  <a href="#">(LC Paper No. CB(1)901/15-16(04))</a></p> <p>Administration's follow-up paper on "Implementation of pilot projects according to the Revised Industrial Estate Policy"  <a href="#">(LC Paper No. CB(1)1024/15-16(01))</a></p> <p>Minutes of meeting  <a href="#">(LC Paper No. CB(1)1186/15-16)</a></p>
28/5/2016	Finance Committee	<p>Administration's paper on "Stage 1 of the Science Park Expansion Programme"  <a href="#">(FCR(2016-17)30)</a></p> <p>Administration's paper on "Developing an Advanced Manufacturing Centre and a Data Technology Hub under the Revised Industrial Estate Policy"  <a href="#">(FCR(2016-17)31)</a></p> <p>Administration's follow-up paper on "the funding proposals relating to the Hong Kong Science and Technology Parks Corporation"  <a href="#">(LC Paper No. FC243/15-16(01))</a></p> <p>Minutes of meeting  <a href="#">(LC Paper No. FC312/15-16)</a>  <a href="#">(LC Paper No. FC313/15-16)</a></p>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
25/1/2017	Panel on Commerce and Industry	<p>Administration's paper on "2017 Policy Address – Policy Initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau"  <a href="#">(LC Paper No. CB(1)464/16-17(03))</a></p> <p>Administration's paper on "2017 Policy Address – Policy Initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation"  <a href="#">(LC Paper No. CB(1)464/16-17(04))</a></p> <p>Administration's paper on "2017 Policy Address – Policy Initiatives of Innovation and Technology Bureau"  <a href="#">(LC Paper No. CB(1)464/16-17(05))</a></p>