

立法會

Legislative Council

LC Paper No. CB(1)685/17-18
(These minutes have been seen
by the Administration)

Ref : CB1/PL/CI

Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 16 January 2018, at 2:30 pm
in Conference Room 1 of the Legislative Council Complex

Members present : Hon WU Chi-wai, MH (Chairman)
Hon SHIU Ka-fai (Deputy Chairman)
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Hon CHAN Chun-ying
Hon Tanya CHAN

Member attending : Hon Claudia MO

Members absent : Hon Dennis KWOK Wing-hang
Hon LAU Kwok-fan, MH

**Public officers
attending**

: Agenda item IV

Mr LIU Chun-san, JP
Under Secretary for Development

Ms Doris HO, JP
Deputy Secretary for Development (Planning
and Lands)1

Mr Ivan CHUNG
Principal Assistant Secretary
(Planning and Lands) 5
Development Bureau

Mr Ricky CHONG
Principal Assistant Secretary for Innovation
and Technology

Mr Ambrose CHEONG, JP
Project Manager (West)
Civil Engineering and Development
Department

Mr LAU Wing-kam
Chief Engineer/West 1
Civil Engineering and Development
Department

Ms Maggie CHIN
District Planning Officer/Fanling,
Sheung Shui and Yuen Long East
Planning Department

Ms Annie CHOI, JP
Commissioner for Innovation and Technology

Mr Johann WONG, JP
Deputy Commissioner for Innovation and
Technology

Agenda Items V and VI

Mr Nicholas W YANG, GBS, JP
Secretary for Innovation and Technology

Ms Annie CHOI, JP
Commissioner for Innovation and Technology

Mr Johann WONG, JP
Deputy Commissioner for Innovation and
Technology

Mrs Millie NG, JP
Deputy Secretary for Innovation and Technology

Mr WONG Wang-wah
Assistant Commissioner for Innovation and
Technology (I&Q Services)

Mr CHIU Kwok-kit, JP
Deputy Commissioner (Technical)
Inland Revenue Department

Ms Michelle CHAN
Senior Assessor
Inland Revenue Department

Clerk in attendance : Mr Desmond LAM
Chief Council Secretary (1)3

Staff in attendance : Mr Joey LO
Senior Council Secretary (1)8

Miss Judy YEE
Council Secretary (1)3

Ms May LEUNG
Legislative Assistant (1)3

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)450/17-18 -- Minutes of meeting held on 21 November 2017)

The minutes of the meeting held on 21 November 2017 were confirmed.

II. Information paper issued since last meeting

(LC Paper No. CB(1)412/17-18(01) -- Information paper on the financial position of the Applied Research Fund for the period from 1 June to 31 August 2017)

2. Members noted the above paper issued since the last meeting.

Admin 3. Mr CHAN Chun-ying referred to the above paper and requested the Administration to provide details, in tabular form, of the two investments of the Applied Research Fund which were in the form of loans under the category of investments processed by the then Industry Department.

(*Post-meeting note:* A letter relaying the member's request was sent to the Innovation and Technology Commission ("ITC") on 18 January 2018.)

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)449/17-18(01) -- List of outstanding items for discussion)

LC Paper No. CB(1)449/17-18(02) -- List of follow-up actions)

4. Members noted that the next Panel meeting would be held on 27 February 2018 from 10:00 am to 12:45 pm to discuss the following items proposed by the Administration –

- (a) Latest position of the testing and certification industry in Hong Kong; and
- (b) Copyright Exceptions for People with a Print Disability under the "Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled" – Proposed Way Forward.

The Chairman said that deputations and individuals would be invited to make written submissions and oral representations on (a) above at the next Panel

meeting.

IV. Development of Lok Ma Chau Loop – advance works and main works package 1

(LC Paper No. CB(1)449/17-18(03) -- Administration's paper on development of Lok Ma Chau Loop – advance works and main works package 1

LC Paper No. CB(1)449/17-18(04) -- Paper on the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop prepared by the Legislative Council Secretariat (updated background brief)

LC Paper No. CB(1)479/17-18(01) -- Administration's paper on development of Lok Ma Chau Loop – advance works and main works package 1 (PowerPoint presentation material))
(*Chinese version only, tabled at the meeting and subsequently issued on 16 January 2018*)

5. The Chairman drew members' attention to Rule 83A of the Rules of Procedure which provided that members should not speak on a matter in which they had a direct or indirect pecuniary interest, except where they disclosed the nature of that interest.

Presentation by the Administration

6. At the invitation of the Chairman, Under Secretary for Development ("USDEV") briefed members on the funding proposals for construction of the advance works under Public Work Project ("PWP") Item No. 748CL (i.e. carrying out land decontamination within the Lok Ma Chau Loop ("the Loop") and advance engineering works) and for detailed design and site investigation of the main works package 1 under part of PWP Item No. 760CL (i.e. undertaking detailed design and site investigation of the site formation works within the Loop and infrastructure/supporting facilities/environmental mitigation works for Phase 1 of the Hong Kong-Shenzhen Innovation and Technology Park ("the Park")). Chief Engineer/West 1, Civil Engineering and Development Department then gave a PowerPoint presentation on the subject matters, details of which were set out in the Administration's papers (LC Paper Nos. CB(1)449/17-18(03) and CB(1)479/17-18(01)).

Discussion*Facilitation measures*

7. Mr Jeffrey LAM said that the Business and Professionals Alliance for Hong Kong supported the development of the Loop. Mr LAM considered that corresponding facilitation measures should be formulated in areas including the entry and exit control, investment promotion and taxation, all of which would be essential for attracting talents to work in the Park. He pointed out that the Administration should take measures to facilitate the entry and exit of Mainland innovation and technology ("I&T") talents working in the Park who would have to commute between Hong Kong and Shenzhen on a daily basis. He also stressed the importance of providing relevant supporting facilities such as suitable staff accommodation within the Park community. Mr LAM was concerned that the I&T development in Hong Kong had lagged behind that of Shenzhen, and urged the Administration to expedite the Loop development in order for Hong Kong to stay competitive in today's I&T industry. Dr CHIANG Lai-wan shared a similar concern.

8. USDEV said that subject to the support of the Panel, the Administration planned to seek funding approval from the Finance Committee ("FC") for PWP Item No. 748CL and the relevant part of PWP Item No. 760CL before mid-2018 after consulting the Public Works Subcommittee ("PWSC"). The Administration also planned to invite tenders in parallel to facilitate commencement of construction of the proposed advance works and detailed design of the mains works package 1 in mid-2018, but would only award the works contract and consultancy after obtaining FC's approval.

9. Commissioner for Innovation and Technology ("CIT") said that the Administration would look into possible facilitation measures for enterprises and staff operating/working in the Park. The Hong Kong-Shenzhen Innovation and Technology Park Limited ("HSITPL"), the subsidiary company of the Hong Kong Science and Technology Parks Corporation ("HKSTPC"), would commission a study to look into the admission criteria, investment promotion measures and mode of operation of the Park. CIT added that according to paragraph (c) of Article III "Scope and Specifics of Cooperation" of the Memorandum of Understanding on Jointly Developing the Lok Ma Chau Loop by Hong Kong and Shenzhen ("MOU") signed between the Hong Kong Special Administrative Region ("HKSAR") Government and Shenzhen Municipal People's Government, the Hong Kong side agreed to take effective measures to facilitate the exit and entry of mutually approved Mainland personnel to the Park. As a pilot project for providing accommodation to I&T talents within the Hong Kong Science Park ("HKSP") community, the proposed InnoCell project would serve as a reference for the Administration in considering whether similar accommodation arrangements

would be provided at the Park.

10. In response to Ms Tanya CHAN's enquiry about the entry and exit arrangements for the Loop, CIT advised that I&T talents from the Mainland would still be subject to the entry visa requirement. However, relevant entry and exit facilitation measures would be considered, including the issuing of a multiple entry card allowing express immigration clearances, similar to the Asia Pacific Economic Council Business Travel Card which allowed for multiple entry visits to any of the participating countries.

Land use planning

Admin 11. In response to Mr CHAN Chun-ying's enquiry, CIT undertook to provide information on whether the 60 000 square metres ("sq m") of commercial land use vis-à-vis the 1.2 million sq m of gross floor area to be provided by the Park (i.e. 5%) was proportionately sufficient, and how such a proportion compared with that of similar facilities in Hong Kong such as HKSP.

12. Mr CHAN Chun-ying said that as stated in the MOU, the Shenzhen side would develop an area of about three square kilometres to the north of Shenzhen River and adjacent to the Loop into a Shenzhen Innovation and Technology Zone. He enquired whether the completion time of the Shenzhen Innovation and Technology Zone would tie in with that of the Loop.

13. CIT responded that a Joint Task Force on the Development of the Hong Kong-Shenzhen Innovation and Technology Park in the Loop had been formed to study and negotiate major issues arising from the development of the Park. Moreover, the Board of Directors of HSITPL set up to operate, maintain and manage the Park and comprising members nominated by both sides would soon be holding its first meeting. The Administration would keep in view the development of the Shenzhen Innovation and Technology Zone and update the Panel as and when necessary.

14. Mr Charles Peter MOK enquired about the overall planning and design of the Park, including the number of phases and the distribution/combination of the various land uses such as high-technology research and development ("R&D") and cultural and creative ("C&C") industries.

15. USDEV said that the Park would be developed in two main phases. The site formation and infrastructure for the Loop development would be delivered through different works packages, with initially the advance works and then the main works package 1. The advance works to be undertaken by the Administration were to pave way for the subsequent construction works for the

Loop development and to enable early provision of the first batch of land parcels within the Loop for development of buildings and associated facilities under Phase 1 of the Park by 2021. Subject to FC's funding approval, the Administration planned to start the proposed advance works and detailed design for the main works package 1 in mid-2018 for completion by end 2021 and early 2023 respectively. Funding for the remainder of PWP Item No. 760CL would be sought in due course to dovetail the implementation programme of the Loop development.

16. CIT added that in parallel with the detailed design work, HSITPL would commission two studies within the coming two months, one of which would deal with the master layout planning of the Park whereas the other would deal with strategy and the business model of the Park. The former would plan for the proposed buildings, roads and related facilities in the Park and the latter would work out a framework for the target R&D disciplines, industry sectors, business and operation model as well as the potential synergy with Shenzhen and Bay Area. The two studies were expected to be completed within one year.

17. Mr YIU Si-wing expressed support for the Loop development and urged for early commencement of the construction works. He enquired about the order of implementation of the detailed design and site investigation works, transport planning of the Loop and whether hotel facilities would be available in the Loop development.

18. District Planning Officer/Fanling, Sheung Shui and Yuen Long East, Planning Department said that 1.23 hectares of commercial land use had been reserved within the Loop, which could be used for building hotel or other accommodation facilities. The requirement of supporting infrastructure/facilities would become clear upon completion of the design and planning study. Project Manager (West), Civil Engineering and Development Department added that the detailed design and site investigation work would be undertaken simultaneously as one would complement the other. On transport planning, a main road linking the western part of the Loop (i.e. Western Connection Road) was proposed in the main works package 1, in which the existing Lok Ma Chau Road and Ha Wan Tsuen East Road would be widened with linkages to San Tin Highway and Fanling Highway. Moreover, a direct road link would be built to link up the Mass Transit Railway ("MTR") Lok Ma Chau Station with the Loop. In the longer term, another road link leading to the eastern part of the Loop was planned subject to further Environmental Impact Assessment ("EIA") study.

19. Mr WONG Ting-kwong said that the Democratic Alliance for the Betterment and Progress of Hong Kong supported the funding proposals for advance works and main works package 1 under PWP Item Nos. 748CL and 760CL respectively for the Loop development. He was hopeful that additional funding would not be

required for the said advance works and main works package 1 to avoid further possible delay in the Loop development. Mr WONG also expressed concern on whether the proposed traffic and transport support arrangements would be sufficient to cope with the increased flow of vehicles and people to and from the Loop, given the hectic traffic condition along Lok Ma Chau Road leading to the MTR Lok Ma Chau Station at present. In this connection, he suggested that Lok Ma Chau Road and Ha Wan Tsuen East Road should be widened to four-lane carriageway to further enhance the road capacity.

20. USDEV responded that the estimated costs of construction of the advance works and detailed design and site investigation of the main works package 1 currently proposed were calculated according to the Administration's latest projections. Barring major unforeseen circumstances, the Administration was confident that no additional funding would be required for the said advance works and main works package 1. In response to Dr CHIANG Lai-wan's enquiry, USDEV said that the Administration would submit further funding proposals for construction of the main works package 1 and other parts of the Loop development until after detailed design and site investigation for main works package 1 had been completed. Project Manager (West), Civil Engineering and Development Department added that according to the transport and traffic impact assessment under the planning and engineering study of the Loop development, the Western Connection Road would be capable of meeting the traffic demand generated by the Loop development before Phase 2 of the Park was fully developed. Moreover, minor road improvement works would be implemented under the advance works to cope with the increased traffic flow during the construction stage of main works package 1.

21. Noting that young people living in Yuen Long might become a major workforce at the Park in future, Dr CHIANG Lai-wan suggested the Administration to consider building a rail link to connect Yuen Long to the Loop to provide an easier commute between the two areas.

22. USDEV responded that according to the Railway Development Strategy 2014, a Northern Link would be built which would be a major regional line formed by linking Kam Sheung Road Station on the West Rail Line to a new station at Kwu Tung on the Lok Ma Chau Spur Line. Nevertheless, Dr CHIANG's suggestion of building a new rail link to connect Yuen Long to the Loop would be referred to the Transport and Housing Bureau for consideration.

Environmental implications

23. Noting that about 57 000 cubic metres of contaminated soil necessitating treatment existed within the Loop, Mr CHAN Chun-ying enquired whether the land decontamination treatment proposed in paragraph 18 of the Administration's

paper (LC Paper no. CB(1)449/17-18(03)) would be a proper and safe approach for treatment of the contaminated soil.

24. Project Manager (West), Civil Engineering and Development Department said that according to the findings of the EIA under the planning and engineering study for the Loop development, land contamination within the Loop was not serious. The further site investigation carried out during the detailed design of the advance works confirmed that contaminated soil necessitating treatment was limited to local spots with a total quantity of 57 000 cubic metres. This was in line with the findings of the approved EIA report. The Administration would carry out land decontamination treatment by the well-established in situ solidification/stabilization method for these local spots in accordance with the Remediation Action Plan recommended in the EIA report.

25. Ms Claudia MO expressed her grave concern that the HKSAR Government might already have lost ultimate control over the HSITPL under the agreed arrangement for the appointment of the Board of Directors, thereby losing its leading role in the operation and management of the Park. She then enquired about the estimated cost of land decontamination treatment and the cost of establishing the wetland compensation area in relation to the Loop development. In response, Project Manager (West), Civil Engineering and Development Department said that a preliminary estimate of the cost of land decontamination treatment would be in the region of \$60 million, whereas the cost of establishing the wetland compensation area could not be assessed until the completion of the detailed design of the main works package 1.

26. In response to Ms Tanya CHAN's enquiry about the details of establishing the Ecological Area ("EA") and wetland compensation area, USDEV said that the EA would be established under the proposed advance works, whereas the funding for the design of the wetland compensation area was covered in the budget for the main works package 1. Project Manager (West), Civil Engineering and Development Department added that the estimated cost of establishing the EA would be around \$230 million.

Mode of management and operation

27. Mr MA Fung-kwok expressed support for the Loop development. He relayed the concerns expressed by a number of tenants of Industrial Estates ("IE") managed by HKSTPC that they had been requested to move out for the reason of upgrading their business operation from manufacturing industry to C&C industry, unless the tenants concerned agreed to pay a hefty land premium for the alleged "change of land use". In this connection, he enquired about the criteria to be adopted by HKSTPC in vetting and approving applications for companies setting up business operation in the Park.

28. CIT said that according to the MOU, HKSTPC would set up a wholly-owned subsidiary company, i.e. the HSITPL to operate and manage the Park independently. A strategy and business model study of the Park would be commissioned in the coming months with a view to formulating a framework plan on such issues by the first half of 2019. With regard to the concerns of IE tenants, CIT responded that according to the land leases of the IEs, the land was granted to the grantees for manufacturing purposes. Due to the relocation of production lines of some of the grantees, the land concerned might no longer be used for such purpose. ITC would refer the cases raised by members to HKSTPC.

29. In response to Ms Tanya CHAN's enquiry about the governing law behind the MOU and the Loop development, CIT said that under paragraph 2 of the Background of the MOU, both sides had agreed to co-operate in taking forward the Loop development under the "One Country, Two Systems" principle, and in accordance with the laws of HKSAR, as well as following the principle of "co-development and mutual benefit".

Summing up

30. The Chairman concluded that the Panel supported in principle the Administration's funding proposals for PWP Item Nos. 748CL and 760CL, and agreed that the proposals be submitted to PWSC and FC for approval respectively. He requested that the Administration should in future be better prepared for the breakdown of the relevant project costs when consulting the Panel on similar funding proposals. The Chairman also opined that the land decontamination treatment works for the Loop development should not be implemented in a fragmented manner as shown in the map on page 4 of the PowerPoint presentation (LC Paper No. CB(1)479/17-18(01)). Noting that the Administration had adopted a road/vehicle-based approach in designing the direct road link to the Loop from the MTR Lok Ma Chau Station which was likely to aggravate the traffic condition in the area, the Chairman urged the Administration to consider the provision of a direct pedestrian route leading from the MTR Lok Ma Chau Station to the Loop.

V. Proposal for an enhanced tax deduction for research and development expenses

(LC Paper No. CB(1)449/17-18(05) -- Administration's paper on "Enhanced Tax Deduction for Research and Development Expenditure"

LC Paper No. CB(1)449/17-18(06) -- Paper on the proposal for an enhanced tax deduction for research and development expenses prepared by the Legislative Council Secretariat (background brief)

31. The Chairman drew members' attention to Rule 83A of the Rules of Procedure which provided that members should not speak on a matter in which they had a direct or indirect pecuniary interest, except where they disclosed the nature of that interest.

Presentation by the Administration

32. At the invitation of the Chairman, Secretary for Innovation and Technology ("S for IT") briefed members on the proposed amendments to the Inland Revenue Ordinance (Cap. 112) ("IRO") to provide companies with enhanced tax deduction for their expenditure on qualifying research and development ("R&D") activities. S for IT said that the enhanced tax deduction as proposed would comprise a two-tier rate, including a 300% tax deduction for the first \$2 million of the aggregate amount of "qualifying R&D expenditure" incurred by the enterprises and payments made to "designated local research institutions", and a 200% tax deduction for the remaining amount. Details were set out in the Administration's paper (LC Paper No. CB(1)449/17-18(05)).

Discussion

Qualifying R&D

33. Mr Jimmy NG noted that the Administration proposed to define "qualifying expenditure" as expenditure attributable to the "qualifying R&D" that was incurred on direct staff costs and consumables employed directly in the "qualifying R&D" concerned for 300% tax deduction, whereas the R&D expenditure such as testing expenses, fees paid for leasing or maintenance of plant or machinery, and fees paid for expert advice, etc. incurred would fall outside of the proposed definition of "qualifying R&D expenditure". However, the relevant R&D activities outsourced to "designated local research institutions" (i.e. outsourced qualifying R&D) would also be eligible for 300% tax deduction. Mr NG expressed concern that such outsourcing requirement would discourage local enterprises from undertaking R&D activities on their own to build up the scale of their business, and it would be difficult to ensure that the outsourced R&D activities would not contain any non-qualifying elements.

34. Sharing Mr Jimmy NG's view, Mr CHAN Chun-ying said that in the

financial services sector, the regulatory authorities would generally require that testing be carried out and third party expert advice be sought before any new financial technology products were introduced. As such, he opined that testing expenses and fees paid for expert advice were vital and should not be excluded from the proposed definition of qualifying R&D expenditure. If the expenses on such activities were to be excluded, it would be difficult for the Administration to encourage private R&D investment and achieve its policy objective of doubling the Gross Domestic Expenditure on R&D as a percentage of the Gross Domestic Product to 1.5% by 2022. Ir Dr LO Wai-kwok shared a similar view and expressed support for the enhanced tax deduction proposal. He also urged the Administration to put more effort in marketing promotion of the R&D deliverables developed by local enterprises.

35. CIT responded that the Administration would carefully examine applications for enhanced tax deduction and screen out any non-qualifying R&D, and would work out the operational details with the Inland Revenue Department ("IRD"). CIT added that testing was excluded as it could be carried out with existing testing systems, and might not have direct relevance to R&D which should involve the development of new technologies, materials or knowledge.

36. Mr YIU Si-wing declared that he worked in a group with subsidiaries engaging in R&D activities. He enquired whether the expenses incurred in upgrading an enterprise's IT system or developing a new IT system both for the enterprise's own use and for sale to other enterprises would be eligible for the enhanced tax deduction. If so, whether the development cost should be deducted from the profit generated therein before calculating the tax deduction amount.

37. In response, CIT said that qualification for the enhanced tax deduction did not hinge on whether profits were made. Whilst the expenses incurred in the procurement of a new IT system or upgrading of an existing IT system were not qualifying R&D expenditure, the expenses incurred in developing new systems might be considered as qualifying R&D. The expenses on non-qualifying R&D might still be eligible for 100% tax deduction as R&D capital expenditure under the existing IRO. In response to Mr YIU's enquiry, CIT said that market research would not be regarded as qualifying R&D.

38. Mr WONG Ting-kwong supported the Administration's proposal to enhance tax deduction for R&D. Noting that R&D investments were a risky venture, but would stand a better chance to succeed if accompanied by marketing promotion, Mr WONG suggested that the expenses incurred in marketing promotion should be considered as qualifying R&D expenditure for enhanced tax reduction. He was concerned that small and medium enterprises ("SMEs") might not be able to enjoy the enhanced tax reduction if its R&D investments failed to generate profits. Dr CHIANG Lai-wan shared a similar concern.

39. S for IT said that it was the Administration's policy intention to assist enterprises in the commercialization of their R&D deliverables. As marketing promotion might not be limited to a single R&D deliverable, but could cover a range of products and even a brand name, the expenses in marketing promotion should not qualify for enhanced tax deduction. He added that the enhanced tax deduction would enable enterprises to raise the percentage of their R&D expenses vis-à-vis turnover while maintaining a same level of profit. CIT added that an enterprise's R&D investments did not have to make a profit in order to qualify for the enhanced deduction, and the post-deduction losses could be carried forward for an indefinite period.

40. Noting that in order to be eligible for the enhanced tax deduction, the relevant R&D activities should be outsourced to "designated local research institutions" designated by CIT, Mr Charles Peter MOK queried that the proposal might only benefit the existing R&D institutions already subsidized by the Innovation and Technology Fund ("ITF"), which might undertake R&D projects of lower innovative value only for the sake of being eligible for the enhanced tax deduction. Mr MOK and Dr CHIANG Lai-wan also expressed concern that some SMEs might invest in projects which they believed to be qualifying R&D but were eventually ruled out by IRD.

41. S for IT said that one of the objectives of the proposal of an enhanced tax deduction was to encourage co-operation amongst Government, industry, academia and the research sector, so as to contribute to innovation and technology upgrading in local industries. CIT supplemented that legislative amendments would be proposed to empower the Commissioner of Inland Revenue to consult CIT in ascertaining whether any particular activity constituted R&D or qualifying R&D, and whether the expenditure was incurred in the carrying out of the R&D or qualifying R&D concerned. She added that interested private enterprises were welcome to apply to the Innovation and Technology Commission ("ITC"), which had extensive experience in vetting and approving R&D projects, for inclusion in the list of "designated local research institutions" after verification of their eligibility. Detailed application procedures would be worked out after the relevant legislative proposal was passed.

Staffing implications

42. In response to Dr CHIANG Lai-wan's enquiry about the staffing implications of the proposal on IRD, Deputy Commissioner of Inland Revenue (Technical) said that IRD would review its manpower from time to time based on the number of applications received for the enhanced tax deduction, and make suitable staffing arrangements as necessary. IRD was in the process of drafting the amendment bill, and would work on the implementation details at the next

stage.

Motion moved by Dr CHIANG Lai-wan

43. The Chairman referred members to the following motion moved by Dr CHIANG Lai-wan which was tabled at the meeting –

"本事務委員會促請政府加強和改善"研發開支額外稅務減免"的政策，具體建議包括：

- (一) 盡快落實"研發開支額外稅務減免"政策，並且盡量簡化企業申請手續，幫助企業節省時間和成本；
- (二) 進一步釐清"合資格研發"中"指定本地科研機構"的標準，爭取將其擴大至有研發能力的私營企業，以鼓勵更多企業進行研發活動。"

(Translation)

"This Panel urges the Government to enhance and improve policies on "enhanced tax deduction for research and development ("R&D") expenses", and the specific measures include:

- (a) implementing expeditiously policies on "enhanced tax deduction for R&D expenses" and simplifying the application procedures for enterprises as far as possible, so as to assist enterprises to save time and costs; and
- (b) further clarifying the requirements of "designated local research institutions" for "qualifying R&D" and striving to extend the coverage to private enterprises with R&D capacity, so as to encourage more enterprises to conduct R&D activities."

44. The Chairman decided that the proposed motion was directly related to the subject matter of the agenda item. Members had no objection to the Panel dealing with the motion. The Chairman then put the motion to vote. Of the members present, 8 members voted for and no member voted against the motion.

45. The Chairman declared that the motion was carried.

(Post-meeting note: The wording of the motion passed was issued to members vide LC Paper No. CB(1)498/17-18(01) on 17 January 2018 and was provided to the Administration for response on the same date.)

Summing up

Admin 46. The Chairman requested the Administration to provide a comparison of its proposal for an enhanced tax deduction for R&D expenses with similar tax deduction arrangements in other countries such as Singapore (i.e. the Productivity and Innovation Credit Scheme) and Israel. He also reminded the Administration to address members' concerns raised at the meeting, and clarify the following issues when the relevant legislative proposal was submitted to the Legislative Council ("LegCo") for consideration: (a) whether the policy intent of the proposal was to encourage enterprises to outsource or undertake their own R&D activities; and (b) details of the provisions to be introduced to prevent artificially inflated claims to safeguard the public coffer and tie in with international tax rules.

47. The Chairman concluded that the Panel supported in principle the Administration's proposal to amend IRO to provide enterprises with enhanced tax deduction for their spending on qualifying R&D activities, and agreed that the relevant legislative proposal be submitted to LegCo for consideration.

VI. Progress on the establishment of the Innovation and Technology Venture Fund

(LC Paper No. CB(1)449/17-18(07) -- Administration's paper on "Progress on the Establishment of the Innovation and Technology Venture Fund"

LC Paper No. CB(1)449/17-18(08) -- Paper on the Innovation and Technology Venture Fund prepared by the Legislative Council Secretariat (updated background brief))

Presentation by the Administration

48. At the invitation of the Chairman, Secretary for Innovation and Technology ("S for IT") briefed members on the establishment of the Innovation and Technology Venture Fund ("ITVF") and its progress. S for IT said that in order to address the concerns raised by some offshore venture capital ("VC") funds over a potential tax issue in relation to ITVF, the Administration would, by way of subsidiary legislation, propose a legislative amendment to add a new category of "Specified Transaction" in Schedule 16 to the Inland Revenue Ordinance (Cap. 112) ("IRO") to cover transactions in relation to ITVF, so that offshore VC funds co-investing with ITVF would be able to maintain their profits tax exemption status. Details of the briefing were set out in the paper provided by

the Administration (LC Paper No. CB(1)449/17-18(07)).

Discussion

Co-investment arrangement

49. Mr CHAN Chun-ying enquired about the total number of co-investment partners ("CP") applications received as at the deadline of 15 January 2018 and whether the number was up to the Administration's expectation. Noting the Administration's initial plan to partner with a few VC funds and co-invest with them in around 40 to 50 local innovation and technology ("I&T") start-ups during the active investment period, Mr CHAN enquired whether the Administration would be able to meet the set objective.

50. S for IT said that 14 CP applications had been received by the application deadline. It was expected that the selection result would be announced in the second quarter of 2018, and CP's investment in local I&T start-ups would probably commence in the second half of the year. Commissioner for Innovation and Technology ("CIT") added that the expected number of 40 to 50 I&T start-ups as investee companies was a preliminary ballpark estimate.

51. Noting that a total of 14 CP applications had been received, the Chairman enquired whether the \$2 billion ITVF would be used up and if not, whether more rounds of invitation for co-investment would be rolled out so as to fully utilize the ITVF funding.

52. S for IT said that the investment period for a typical VC was eight to 12 years, during which the VC would continue to invest in the investee company concerned and the Government would co-invest with the VC on a matching basis at an overall investment ratio of approximately 1:2. All investment returns would be deposited into the dedicated bank accounts of the special-purpose vehicle for ITVF, i.e. The Innovation and Technology Venture Fund Corporation ("ITVFC") for the purpose of further investment. The Administration would not rule out the possibility of a second round of invitation.

53. CIT added that, depending on the amount of investment to be committed by each CP selected, the Administration would be able to assess when the \$2 billion would be fully committed. If there was remaining fund, the Administration would consider a second round of invitation. The admission criteria for the second round of invitations for co-investment, if any, would be broadly in line with that of the first round. In response to Mr Charles MOK's enquiry about the nature and mix of the interested VC funds, CIT said that ITVF had attracted a variety of CP applicants which consisted of local, Mainland and overseas VCs of various business scales. Due to the confidentiality agreement between the

Government and CP applicants, detailed information of the interested VCs could not be disclosed at this stage.

Incentives for CPs

54. Mr CHAN Chun-ying noted that CPs would be offered an option to purchase the ITVFC's shares in all of the investee companies within five years from the commencement date of the master agreement at a cost of the principal amounts plus suitable premium as the upside incentives, which were performance-based incentives contingent on the success of the investee companies. He enquired about the mechanism and timing of determining the premium concerned.

55. S for IT responded that the five-year exit mechanism would provide an incentive for CPs to select I&T start-ups with good potentials and bring added value to the investee companies to foster their business development, while allowing the Government to recoup its investment and profits generated to be used for other co-investments. CIT added that for the residual investments after the expiry of the master agreement, the premium would be assessed by an independent third party valuer to be nominated by the Government to the investee company, the cost of which would be borne by the investee company concerned.

Legislative timetable

56. Noting that the Administration would put forward a legislative amendment to add a new category of "Specified Transaction" in Schedule 16 to IRO to cover the transactions in relation to ITVF so that CPs could be able to maintain their profits tax exemption status, Mr Charles MOK enquired about the relevant legislative timetable, and hoped that the establishment of ITVF would further stimulate VC investment in local I&T start-ups.

57. CIT said that the Administration aimed to publish by April or May 2018 a notice of the legislative amendment to Schedule 16 to IRO in the Gazette. She added that VC had increasing interest in local I&T start-ups in recent years. According to industry figures, VC investment in Hong Kong in 2013 stood at only \$200 million. In 2016, VC investment had risen sharply to \$4.3 billion. In the first nine months of 2017, the figure had already reached \$6 billion. S for IT further said that ITVF would focus on Pre-Series A round and A round of financing, in which the Administration saw room for enhancement with the risk-sharing mechanism between the Government and the VC funds under ITVF.

Summing up

58. The Chairman concluded that the Panel supported in principle the

Administration's proposal to put forward a legislative amendment to IRO to add a new category of "Specified Transaction" in Schedule 16 to IRO, and agreed that the relevant legislative proposal be submitted to LegCo for scrutiny by way of subsidiary legislation through negative vetting.

VII. Any other business

59. There being no other business, the meeting ended at 4:34 pm.

Council Business Division 1
Legislative Council Secretariat
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