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Panel on Commerce and Industry

Meeting on 21 May 2019

**Updated background brief on the re-industrialization policy and
Industrial Estates**

Purpose

This paper provides: (a) updated background information on the re-industrialization policy and Industrial Estates ("IEs"); and (b) a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") on the subjects.

The re-industrialization policy

2. In the 2016 Policy Address, the Chief Executive ("CE") 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 technologies, the Administration hopes to attract high value-added industries that are suitable to be based in Hong Kong so that traditional labour-intensive industry could migrate to smart production.

3. Through research and development ("R&D") and a wider application of innovative technologies, the Administration aims to inject new impetus into traditional industries and develop high value-added and less land-intensive manufacturing industries that are based on new technologies and smart production. Chaired by the Financial Secretary, the Committee on Innovation, Technology and Re-industrialisation ("the Committee") was set up in April 2017 to collect views and suggestions from the innovation and technology ("I&T") sector on matters relating to local I&T and re-industrialization in a high-level and cross-bureaux setting. The Committee has held eight meetings so far, with deliberations on the latest I&T development in Hong Kong, the Committee's work focus and a range of I&T-related topics.

4. The Administration considers that high-end manufacturing will provide quality jobs for local I&T talents, particularly young graduates, and will generate R&D needs, which is conducive to raising R&D investment by the industries, thus contributing to robust and sustainable development of the R&D work of local universities and research institutes. The Administration has been creating favourable conditions for re-industrialization along the following four major fronts:

- (a) to provide suitable infrastructure to create more space for sustainable development;
- (b) to provide appropriate financial support to encourage industrial R&D and create new advanced manufacturing industries;
- (c) to provide technological support to drive the upgrading and transformation of industries; and
- (d) to nurture and pool talents to boost the productivity and adaptability of the labour force.

5. In the 2018 Policy Address, CE proposed allocating HK\$2 billion for launching a Re-industrialisation Funding Scheme to subsidize manufacturers, on a matching basis, to set up smart production lines in Hong Kong. CE also recommended allocating an additional HK\$2 billion for the Hong Kong Science and Technology Parks Corporation ("HKSTPC")¹ to identify suitable land in IEs for building manufacturing facilities required by the dedicated advanced manufacturing sector.

Industrial Estates

New admission criteria and leasing arrangement

6. In 2014, the Administration, in conjunction with HKSTPC, conducted a

¹ Hong Kong Science and Technology Parks Corporation ("HKSTPC"), being a statutory body set up by the Government in 2001, is tasked with the objectives to establish or develop premises in support of technology-based companies and activities; to facilitate research and development and application of technologies; and to support the development, transfer and use of new or advanced technologies in Hong Kong. The Government, as the sole shareholder of HKSTPC, appoints a Board of Directors to oversee the work of HKSTPC. HKSTPC manages and operates the Hong Kong Science Park, three Industrial Estates ("IEs") as well as the InnoCentre at Kowloon Tong.

review on the utilization and long-term development direction of the three IEs.² Pursuant to the recommendation of the said review that HKSTPC should use the land in the three IEs more efficiently to support science and I&T based industries, and in order to dovetail the re-industrialization policy, the Administration revised the IE policy to accommodate I&T industries, encourage smart production, and attract high value-added technology industries.³ HKSTPC will focus its resources on selected industries that can bring the most benefits to Hong Kong and complement the development of its three over-arching technology platforms of Smart City, Healthy Aging and Robotics. According to the Administration, the new admission criteria for IEs will be flexible enough to cater for the fast-changing market trends in I&T sector and capable of accommodating the entire value chain covering R&D, prototyping, product design, production, testing and distribution, administration to marketing and branding, so that a "through-train" service can be provided.

7. Under the revised IE policy, instead of building their own factories, most tenants will be leasing specialized multi-storey industrial buildings built by HKSTPC.⁴ To tighten control and monitoring against under-utilization and abuse of facilities, HKSTPC will carry out on-site inspections by prior appointment/notice, as well as requiring tenants to submit business updates every three years under the lease terms. The rental charges will 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

8. To promote smart production, attract high value-added technology industries and manufacturing processes, HKSTPC is developing the Data Technology Hub ("DT Hub") and the Advanced Manufacturing Centre ("AMC") in the Tseung Kwan O IE,⁵ which are expected to be completed in 2020 and 2022 respectively.

9. DT Hub (with a gross floor area ("GFA") of about 27 000 sq m) is a

² The three IEs are Tai Po IE, Yuen Long IE and Tseung Kwan O IE with area of 75 hectares, 67 hectares and 75 hectares respectively.

³ Examples include pharmaceutical, healthcare, biomedical and advanced machinery.

⁴ Except under exceptional circumstances, HKSTPC will not grant sites to single users to build their own factories.

⁵ The total estimated development cost of HK\$8,248 million (including HK\$6,633 million for Advanced Manufacturing Centre and HK\$1,615 million for Data Technology Hub) includes the government equity of HK\$6,598 million (80%) and government loan of HK\$1,650 million (20%). The Finance Committee approved the financing arrangement on 28 May 2016.

purpose-designed infrastructure for data technology and telecommunications services, providing general supporting facilities, including business centre, showcase arena and offices, etc.

10. AMC (with a GFA of about 108 600 sq m) is a modern industrial building developed for smart manufacturing and highly automated production processes. It will focus on the development of selected high value-added manufacturing industries with extended activities such as R&D, logistics support, prototyping and design, etc. HKSTPC has started inviting proposals for leasing since January 2019. Apart from AMC, it is proposed in the 2018 Policy Address that an additional allocation of HK\$2 billion be provided to HKSTPC for building manufacturing facilities required by the dedicated advanced manufacturing sectors in IEs, so as to provide suitable premises for manufacturers to set up production base in Hong Kong (as mentioned in paragraph 5 above).

Efficient use of existing Industrial Estate sites

11. According to the Administration, the three IEs, with over 90% of the land being utilized,⁶ have only been developed to about 53% of the overall maximum plot ratio of 2.5, as at March 2017. HKSTPC has been encouraging factory operators of the IE sites to surrender unused plot ratio or premises which have not been fully utilized. Up to July 2018, HKSTPC has successfully repossessed 12 sites of about 12 hectares in total through enforcing relevant lease terms and providing other incentives.

12. Among the repossessed sites, HKSTPC completed refurbishing a four-storey factory (with GFA of about 7 800 sq m) in the Tai Po IE into the Precision Manufacturing Centre ("PMC") in March 2017 with a view to fostering high technology smart production. PMC has been fully occupied by tenant enterprises engaging in precise engineering and assembly, new material manufacturing and environmentally-friendly yarn production, tooling and advanced indoor hydroponic industries, etc. HKSTPC will identify suitable premises in the Tai Po IE or Yuen Long IE to develop Good Manufacturing Practice grade facilities for use by the healthcare technology industries.

Planning for new industrial estates

13. CE pointed out in the 2016 Policy Address that there would be an anticipated increase in the demand for sites for scientific research and new industrial use. According to an earlier study commissioned by HKSTPC, it is technically feasible to expand the Yuen Long IE on a nearby site of about 15 hectares. HKSTPC has taken this into its medium- to long-term

⁶ A total of 159 enterprises were operating in the three IEs, as at end April 2018.

development plan and commenced a study on the engineering and technical feasibility in February 2019 to explore the mode of development of the site so as to cater for the admission of high-tech industries.

14. The Administration has also set aside a site of about 56 hectares near the Liantang/Heung Yuen Wai Boundary Control Point for development into IE in the long run. HKSTPC commissioned a consultant in end 2018 to carry out a study on the development vision and will conduct further studies on technical feasibility and mode of development in due course.

Previous discussions

15. The Administration updated the Panel on 17 July 2018 on its measures to support re-industrialization as well as the latest development of IEs. The Panel also received views from deputations on the related subject at the meeting. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

16. Members urged the Administration to remove outdated provisions that impeded the I&T development which might in turn facilitate the use of I&T to benefit the elderly and the underprivileged groups. They suggested that the Administration should consider appointing experienced professionals from the I&T industry into the Law Reform Commission to drive such legislative reform.

17. The Administration advised that it had attached great importance to reforming laws which might hinder I&T development. The newly established Policy Innovation and Co-ordination Office would collaborate with relevant bureaux/departments to carry out the relevant work.

18. In response to some deputations' query that certain grantees at IEs had contravened lease conditions by subletting their leased premises to a third party, the Administration advised that IE grantees (including data centre) were bound by the lease conditions, which stipulated, inter alia, that they should: (a) engage in the provision of specified products or services; (b) make a certain amount of investment in equipment or machinery; and (c) at all time retain exclusive possession of the premises and subletting would not be allowed. HKSTPC conducted site inspections of the premises at least twice a year. HKSTPC would take lease enforcement measures such as charging additional land premiums and initiating re-entry of premises against grantees who had violated the lease conditions and failed to take appropriate remedial actions after verbal warnings and written notice.

19. Some members enquired about the Administration's policies or measures to encourage private enterprises to relocate their production lines back to Hong

Kong. They also suggested that the Administration should consider requiring enterprises which pilot-used local research outcomes to retain part of the relevant production lines in Hong Kong.

20. The Administration advised that Hong Kong had strong upstream R&D capabilities but lacked the capability to commercialize R&D results. The Administration had been actively creating favourable conditions for the industries, through promoting re-industrialization, to encourage enterprises to relocate their production lines back to Hong Kong. AMC was under construction in the Tseung Kwan O IE with a view to promoting smart production and catering for modern production processes with less spatial requirement. The future AMC would aim at linking up the upstream capability of Hong Kong with midstream and downstream manufacturing processes. Apart from the provision of land, the Administration would provide additional resources for HKSTPC to attract advanced manufacturing suitable for establishment in IEs.

Council questions

21. Hon CHUNG Kwok-pan and Hon WU Chi-wai asked questions at the Council meetings of 16 May and 13 June 2018 respectively on the issues relating to the Administration's measures to support Hong Kong enterprises to operate in IEs and to boost development of industries that enjoyed advantages in process of Hong Kong's re-industrialization. The questions and the Administration's replies are hyperlinked in the **Appendix**.

Latest position

22. The Administration will seek the Panel's support on 21 May 2019 to implement new measures to promote re-industrialization, including (a) setting up the HK\$2 billion "Re-industrialisation Funding Scheme"; and (b) allocating HK\$2 billion to HKSTPC for developing facilities in IEs for advanced manufacturing activities.

Relevant papers

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

List of relevant papers

Date of meeting	Meeting	Paper
16/5/2018	Council	Question No. 8 on "Supporting Hong Kong enterprises to operate in industrial estates" raised by Hon CHUNG Kwok-pan (Government press release)
13/6/2018	Council	Question No. 4 on "Boosting development of industries that enjoy advantages in process of Hong Kong's re-industrialization" raised by Hon WU Chi-wai (Government press release)
17/7/2018	Panel on Commerce and Industry	<p>Administration's paper on "Government's measures to promote 'Re-industrialization' and the latest development of the Hong Kong Science Park and Industrial Estates" (LC Paper No. CB(1)1238/17-18(04))</p> <p>Updated background brief on the development of Hong Kong Science Park and Industrial Estates, and the policy on re-industrialization prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1238/17-18(05))</p> <p>Administration's follow-up paper on "Latest development of the Hong Kong Science Park and industrial estates, and the Administration's measures to support re-industrialization" (LC Paper No. CB(1)299/18-19(01))</p> <p>Minutes of meeting (LC Paper No. CB(1)1402/17-18)</p>