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Finance Committee of the Legislative Council

Minutes of the 27th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 15 May 2020, from 9:02 am to 10:41 am; and
from 2:30 pm to 7:00 pm

Members present:

Hon CHAN Kin-por, GBS, JP (Chairman)
Hon CHAN Chun-ying, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS

Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, BBS, JP
Hon LEUNG Che-cheung, SBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung, JP
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Hon Elizabeth QUAT, BBS, JP
Hon Martin LIAO Cheung-kong, GBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, BBS, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan, JP
Dr Hon Pierre CHAN
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung, JP
Hon LAU Kwok-fan, MH
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho

Hon Vincent CHENG Wing-shun, MH, JP
Hon Tony TSE Wai-chuen, BBS
Hon CHAN Hoi-yan

Public officers attending:

Ms Alice LAU Yim, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Mr Mike CHENG Wai-man	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr Alfred SIT Wing-hang, JP	Secretary for Innovation and Technology
Ms Annie CHOI Suk-han, JP	Permanent Secretary for Innovation and Technology
Mr Alan LO Ying-ki	Deputy Secretary for Innovation and Technology (1)
Ms Rebecca PUN Ting-ting, JP	Commissioner for Innovation and Technology, Innovation and Technology Commission
Mr Ivan LEE Kwok-bun, JP	Deputy Commissioner for Innovation and Technology, Innovation and Technology Commission
Mr Edward YAU Tang-wah, GBS, JP	Secretary for Commerce and Economic Development
Miss Eliza LEE Man-ching, JP	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Mr Joe WONG Chi-cho, JP	Commissioner for Tourism, Commerce and Economic Development Bureau
Mr Anson LAI Yat-ching	Assistant Commissioner for Tourism 2, Commerce and Economic Development Bureau

Other persons attending:

Mr Aldous MAK	Chief Financial Officer, Hong Kong Science and Technology Parks Corporation

Ir Dr YIU Hing-leung	Head of Advanced Manufacturing, Hong Kong Science and Technology Parks Corporation
Mr Leo KUNG Lin-cheng, GBS, JP	Chairman, Board of Ocean Park Corporation
Mr LAU Ming-wai, GBS, JP	Deputy Chairman, Board of Ocean Park Corporation
Mr Matthias LI	Chief Executive, Ocean Park Corporation

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1

Staff in attendance:

Ms Angel SHEK	Chief Council Secretary (1)1
Miss Bowie LAM	Council Secretary (1)1
Miss Queenie LAM	Senior Legislative Assistant (1)2
Mr Frankie WOO	Senior Legislative Assistant (1)3
Miss Mandy POON	Legislative Assistant (1)1
Miss Yannes HO	Legislative Assistant (1)7

Action

The Deputy Chairman reminded members of the requirements under Rule 83A and Rule 84 of the Rules of Procedure.

Item 1 — FCR(2019-20)40

INNOVATION AND TECHNOLOGY FUND
HEAD 111 — INNOVATION AND TECHNOLOGY
New Subhead "Re-industrialisation Funding Scheme"

HEAD 184 — TRANSFERS TO FUNDS
Subhead 992 "Payment to the Innovation and Technology Fund"
Subhead 987 "Payment to the Capital Investment Fund"

CAPITAL INVESTMENT FUND
HEAD 962 — INDUSTRY
New Subhead "Equity in the Hong Kong Science and Technology Parks Corporation for developing a Microelectronics Centre"

2. The Finance Committee ("FC") continued with the discussion on item FCR(2019-20)40.

3. The Deputy Chairman advised that the item sought FC's approval of:

(a) a supplementary provision of $2 billion under Head 184 Transfer to Funds Subhead 992 Payment to the Innovation and Technology Fund ("ITF") to enable the creation of a commitment for setting up a funding scheme to subsidize manufacturers to set up new smart production lines in Hong Kong; and

(b) a supplementary provision of $2 billion under Head 184 Transfers to Funds Subhead 987 Payment to the Capital Investment Fund to enable the creation of a commitment to inject $2 billion as equity from the Capital Investment Fund to the Hong Kong Science and Technology Parks Corporation ("HKSTPC") for developing the Microelectronics Centre ("MEC").

The Innovation and Technology Bureau ("ITB") consulted the Panel on Commerce and Industry on 21 May 2019, and the Panel had spent 46 minutes on the discussion of the proposals. FC had discussed the item at the last two meetings for a total of one hour and 42 minutes. As for the two FC sessions held today, the Deputy Chairman announced the close of the morning session at 10:41 am, and FC continued the deliberation on the proposals in the afternoon at 2:30 pm.

Re-industrialisation Funding Scheme

Support for enterprises

4. Mr Tony TSE expressed support for both funding proposals. He stressed the importance for rendering support to small and medium enterprises ("SMEs") particularly in the current economic climate, as well as for promoting the "Made in Hong Kong" brand and "Hong Kong First" concept. Mr TSE enquired how the Re-industrialisation Funding Scheme

("RFS") would support enterprises and encourage them to take on and train more talents.

5. Secretary for Innovation and Technology ("S for IT") said that the Government would provide subsidy on a 1 (Government):2 (Company) matching basis under RFS to assist enterprises in Hong Kong to realize and expedite their plans for setting up smart production lines; large, medium and small enterprises would benefit alike. These smart production lines would tie in with the development of innovation and technology ("I&T") in Hong Kong and benefit the economy as a whole, including those involved in the production lines as well as others engaged in the related activities such as after sales service, and repair and maintenance.

6. Mr SHIU Ka-chun cited a case of subsidy provided under ITF to finance the production of nano-masks with effect similar to that of N95, but the Hospital Authority and Government departments having declined their procurement until April 2020. This incident cast doubt on the Administration's determination to drive re-industrialization in Hong Kong. Mr SHIU enquired: (a) if the secretariat, to be set up to handle the work relating to RFS, would enhance the procurement of local research and development ("R&D") outcomes by the Administration; and (b) if not, the means to be taken by the Administration to enhance subsidy for the development of such products to increase their sales volume locally and promote their sales in the Mainland, Asia and globally. He also asked if the Administration would provide incentives to attract enterprises to relocate production lines from the Mainland, Singapore and Taiwan to Hong Kong.

7. S for IT agreed to the need in justified cases for I&T products to hit the market with the assistance of the Administration and relevant bodies. He advised that the new procurement policy adopted by the Government in April 2019 could encourage Government contractors and suppliers to use I&T products on account of two main features, i.e. removing the requirement on tenderers' experience, and attributing 20% or more of the score of the technology aspect to the innovation element. On the promotion of the sale of local I&T products in other places, S for IT said that crisis situations such as the epidemic had provided the incentive for identifying new and better products such as the nano-masks as an alternative. The Government planned to share the experience in the current fight against the epidemic with neighbouring economies, and this would also create an opportunity to open up the market for new products. S for IT added that the current lack of dedicated manufacturing facilities in Hong Kong had made it necessary to entrust the production of R&D outcomes by local enterprises and universities to other places. This had

delayed the production process. If the manufacturing process could take place in Hong Kong, it would satisfy local needs and support local I&T development.

8. Mr WONG Ting-kwong expressed support for the re-industrialization of Hong Kong having regard to the change from a labour intensive economy to an I&T led one. He sought clarification on whether the $2 billion under RFS was for sponsoring the industry to set up smart production lines. S for IT confirmed that this was the objective of RFS, under which the Government would provide subsidy subject to a maximum of one-third of the total approved project expenditure or $15 million, whichever was lower.

9. Mr WU Chi-wai asked for the definition of a "smart production line" and its difference with an automatic production assembly line. He also enquired if the Administration would specify conditions to link up the setting up of smart production lines with R&D outcomes as a vehicle to drive the latter.

10. S for IT said that "a smart production line" involved the use of smart technologies for production, such as artificial intelligence and Internet of Things, to enhance the effectiveness or efficiency of the production lines as a whole and assist in the upgrading of Hong Kong to "Industry 4.0". The objective was to encourage high value-added and high-tech production which did not require much labour or land. On Mr WU's latter concern, S for IT said that the setting up of the smart production lines would facilitate the commercialisation of R&D outcomes in Hong Kong.

11. Mr Jeremy TAM enquired if there would be any requirement on the minimum size of the business in order for enterprises to qualify for assistance under RFS. He considered that the use of technology such as real-time data, which had been cited by the Administration as one of the criteria for smart production lines, should be relatively simple. He also asked if there were appeal channels for unsuccessful applicants.

12. S for IT said that there was no minimum business size requirement, although the investment on smart production lines would unlikely be small. The Vetting Committee, which would comprise experts from the I&T field and ensure the proper use of public money, would vet applications with due regard to the rapid changes in technologies. Permanent Secretary for Innovation and Technology ("PS(IT)") said that the Government had not considered the establishment of an appeal channel. Nevertheless,

unsuccessful applicants would be informed of the reasons for the outcomes and could re-apply when ready.

13. Mr CHU Hoi-dick considered that the $15 million subsidy should mainly be for assisting SMEs and start-ups, rather than existing and large enterprises, to kick start their business. However, the disbursement of the subsidy only on a reimbursement basis would create difficulties for small enterprises. In case funded production lines were not allowed to be transferred outside Hong Kong within five years, he enquired whether the Administration would provide support to ensure that their tenancies would last for five years, or help identify factory buildings for them to put their machinery if their tenancies expired during this period. Dr KWOK Ka-ki also agreed with the need to focus on SMEs as they might not be able to invest a total of say $45 million to kick start their business.

14. S for IT said that SMEs would be eligible for Government subsidy of one-third of the approved project expenditure or $15 million per project, whichever was lower, and there was no requirement on the minimum size of their business. On the other hand, the enterprises concerned had to bear responsibilities for their other financing arrangements. The specific period for such smart production lines to remain in Hong Kong would depend on further deliberation by the Vetting Committee. S for IT pointed out that SMEs were eligible for funding support under the Technology Voucher Programme with a Government subsidy ratio of 75% and a cumulative funding ceiling of $600,000. The Government considered the ceiling of $15 million under RFS appropriate for setting up smart production lines, and this would be complemented by other modes of assistance such as the programmes for the recruitment of talents.

15. Mr CHU Hoi-dick enquired if ITB had conducted, in relation to RFS, any study on the average cost for setting up a microelectronics factory. He considered that a subsidy of $15 million would not be attractive to large enterprises; and neither would it help start-ups given that funding would only be disbursed on a reimbursement basis.

16. S for IT affirmed that the Government had undertaken a study and consulted the industry. The cost of the production lines would have regard to their scale and the needs of the respective enterprises. PS(IT) supplemented that the Government had consulted the industry before proposing RFS, and clarified that $15 million was for each production line and not for the entire factory operation. Some enterprises might want to invest in new products with intellectual property ("IP") as the emphasis and I&T as the base, and considered that their production in Hong Kong would give them both an assurance and an advantage. Others might want to,

within their existing production lines, upgrade processes with heavy IP content for production in Hong Kong. As smart production lines involved new technology, the one-third Government subsidy under RFS would help reduce the risk for these enterprises which would still have to invest two-thirds of the expenses. Commissioner for Innovation and Technology ("CIT") elaborated that the Government would disburse grants on a reimbursement basis after project completion and upon the Government's acceptance of the final project report and audited accounts submitted by the enterprises. If the project duration was over 12 months, the Government would disburse interim funding of up to 50% of the approved funding amount. In general, enterprises would have their own financial arrangements when they set up the production lines, and the Government considered the reimbursement arrangement appropriate.

17. Mr CHAN Chi-chuen asked: (a) if the Administration would proactively attract applications and whether there were targets or quotas for expenditure in the first two years of operation of RFS; (b) whether production of the first batch of products would be recognized as the completion of a project, and the reimbursement arrangement for productions lines which required longer production time; and (c) whether the Administration had a policy direction for Hong Kong to advance from original equipment manufacturing ("OEM") to original brand manufacturing ("OBM").

18. On (a), CIT said that after obtaining FC's approval of the funding proposal, the Administration would proactively publicize and promote RFS through making contacts with industry and trade organizations and through the Hong Kong Economic and Trade Office in Guangdong, encouraging manufacturers in the Pearl River Delta Region, in particular those with high-value production process, to relocate their smart production lines to Hong Kong. No target or quotas had been set at that stage. For (b), CIT said that with the set-up of the production lines done and the production of the first batch of products, the project would be regarded as completed whereupon the enterprises concerned could apply for reimbursement with the submission of the final report and final audited accounts. Interim funding would be provided if the project duration exceeded 12 months and upon the provision of progress report and audited accounts. As regards (c), PS(IT) said that the crux would be whether the operations concerned were smart production lines with emphasis on IP and I&T, irrespective of whether they were OEM or OBM. In response to Mr CHAN Chi-chuen's further enquiry on whether further injection into RFS was envisaged as there was no limit on the number of projects to be subsidized, S for IT said that any need for further injection would depend on the actual

circumstances. If there were a large number of applications, the Government would report to the legislature for further decisions.

Nurturing of talent and employment opportunities

19. Mr LEUNG Yiu-chung said that Hong Kong was in lack of talents, such as staff for testing and adjustment work in the case of the production of masks. Furthermore, costs for printing and packaging were high and matching facilities for production were also called for. He asked if the Administration had considered how the various stages and needs of the production process, such as the supply of spare parts and raw materials, could be tied in overall.

20. S for IT said that the percentage of manufacturing activities in Hong Kong's Gross Domestic Product ("GDP") had been decreasing in recent years. This had impacted on the demand for technology talent, who might turn to other professions if their technology skill sets were not required. The crux would therefore be to set up production lines, especially I&T based ones, thereby creating a demand for technology jobs. S for IT stressed that the Administration had dedicated over $100 billion in the past three years in infrastructure, nurture of talents, financial support, etc., for I&T development, and the re-industrialization of Hong Kong required the support of the legislature, the industry and other stakeholders, and co-ordination by the Administration.

21. Ms Claudia MO remarked that land in Hong Kong was scarce and the two funding proposals involved significant sums. She enquired if there would be a pre-condition for enterprises receiving subsidy under RFS to recruit Hong Kong talents instead of from abroad, and to retain their production lines in Hong Kong for say at least 10 years.

22. S for IT said that the scarcity of land in Hong Kong had made it necessary to identify high-value and high-end production lines which were suitable for development locally. As such, enterprises engaged in artificial intelligence, Internet of Things, etc., which had relatively less demand on land would apparently meet these requirements. PS(IT) said that subsidies under RFS would be for smart production lines which placed emphasis on IP and were technology based, and a charge would be created on the relevant production lines to prohibit their transfer outside Hong Kong within a specified period of, say, five years. S for IT added that the length of the period of restriction would be determined by a Vetting Committee comprising experts and representatives from the industry. The Committee would have regard to factors such as the productivity of the production lines, their installation, the recovery of cost and the benefits to

be generated to Hong Kong. For the nurturing of talent, PS(IT) reckoned that there would be a high probability for these companies to recruit locally as their plants would be situated in Hong Kong. Only if Hong Kong lacked the relevant expertise would these companies recruit from outside Hong Kong, and experts so recruited would help to train up local talents. S for IT explained that as smart production lines covered a wide scope, it might not be possible for talents to exist in each and every field. In case local talents were not available, talents from outside Hong Kong could lead and enhance the strength of local talents. He trusted that Hong Kong people would have an edge in employment although it was not possible to specify a particular percentage.

23. Mr Holden CHOW referred to the 1 400 staff of local enterprises who had received subsidized technology training, and enquired if the Administration had estimated how many of them would join projects under RFS. He also asked if there was adequate supply of local core I&T talents to support the re-industrialization of Hong Kong, and whether outside talents would be considered to lead local talents if necessary.

24. S for IT said that efforts from all fronts were required to take forward the local I&T industry. These included talents, funding, infrastructural and technological support, as set out in Enclosure I to FCR(2019-20)40. While engineering graduates from universities in Hong Kong could join the market every year, this would have to be complemented by the nurturing of talent to enable serving I&T staff to catch up with the development requirements of "Industry 4.0". As for non-local talents, S for IT said that talent admission schemes, which were subject to a vetting process and the fulfilment of Hong Kong's needs, were in place to cater for such demand.

25. Mr Charles Peter MOK said that in connection with the re-industrialization of Hong Kong, members were generally concerned with the positioning, talents, long-term support including land, policy and subsidy, as well as the absence of indicators for some of these aspects. He took the view that the promotion of the Hong Kong First concept would ensure sustainability, and it was important for the Administration to kick start by making available land and policy support. Mr MOK considered that the Administration had not dedicated sufficient resources for nurturing talent and retraining, and many talent admission schemes were unable to meet their targets.

26. S for IT said that talent was the foundation for I&T development. For that reason, the Administration had launched the Re-industrialisation and Technology Training Programme ("RTTP") with 1 400 staff of local

enterprises having received technology training so far; members' support of the funding proposals under consideration would provide the opportunity for them to advance further. In this connection, Mr SHIU Ka-chun urged the Administration to note that for an innovative economy to succeed, the three "Ts" of technology, talents and tolerance would all be essential.

27. Mr Michael TIEN asked if more could be done with regard to low-tech jobs to enable less academically qualified youths to secure employment or start their own business. In response, S for IT said that the Administration welcomed the setting up of all types of production lines so long as they were beneficial to Hong Kong. While high-value and high-tech production lines might be more appropriate on account of the scarcity of land in Hong Kong, all types of I&T businesses would generate supporting business operations such as logistics, maintenance, marketing and promotion, etc., and all would create job opportunities. In response to Mr TIEN on whether the Administration had any strategic plans either to focus on start-ups by Hong Kong people or to attract investment by major overseas enterprises, S for IT said that the Administration relied on both channels to enhance the I&T ecosystem and had not set any specified percentages respectively.

28. Mr KWOK Wai-keung stressed the importance of foresight for creating an edge for Hong Kong in the development of its industries. He asked if consideration had been given to "Industry 4.0" when designing RFS. He also expressed worries about employment opportunities, which were not at all optimistic in the light of the prevailing economic downturn. He enquired about the number of basic and non-technical/semi-technical job opportunities which might be created to alleviate unemployment.

29. S for IT said that RFS was exactly about supporting "Industry 4.0". While the jobs to be created would depend on the production lines concerned, the Government estimated that their related industries would include those such as logistics and the supply chain of raw materials and shipment to other places; financial arrangements on accounts; business and market promotion, etc. Smart production lines required minimum manpower, but their outcomes could support the development of related industries and benefit the manpower market. In response to Mr KWOK's further enquiry on whether bonus would be provided if the production lines concerned could create additional job opportunities, as a means to recognise their contributions to the enhancement of local employment, S for IT said that the Government would study Mr KWOK's suggestion.

Vetting mechanism

30. Mr SHIU Ka-chun said that the composition of the Vetting Committee was very similar to that of the Committee on Innovation, Technology and Re-industrialisation. He enquired about the respective roles of the two committees, whether their membership would overlap, and whether members of the Vetting Committee had already been decided. As local I&T experts were rare, he expressed concerns that the same group of experts might sit on both committees.

31. S for IT said that members of the Vetting Committee had yet to be appointed. He acknowledged that talent was indeed a concern when industries in Hong Kong were not yet robust, and it was necessary to strike a balance between the availability of talents and finding suitable experts for joining the relevant committees. He took note of Mr SHIU's views, and said that the Administration would aim to invite persons from a broad range of relevant background to serve on the Vetting Committee.

32. Referring to the CuMask+™ case, Dr KWOK Ka-ki expressed concerns on possible conflict of interest of members of the Vetting Committee, the absence of an objective assessment criteria for vetting applications under RFS, and whether consideration would be given to the value added and the types of industries to be supported. He enquired about the experts to be appointed, and if consultation had been made with the Independent Commission Against Corruption and the Audit Commission about RFS.

33. S for IT said that no such consultation had been made as RFS had not yet received funding support. A comprehensive vetting mechanism would be put in place for RFS.

Cash flow projection

34. Referring to the cash flow projection for RFS, Mr CHU Hoi-dick noted that the $2 billion would be for around 130 projects and the bulk of the cash flow of $1,325 million would be for the year 2024-2025 and beyond. He asked for the basis of such a projection and the estimated timing for the approval of the 130 projects.

35. CIT said that the cash flow projection was an estimate and the exact data would depend on the actual circumstances. She explained that the secretariat to be set up would undertake initial vetting upon submission of all relevant documents by applicants, before consideration by the Vetting Committee. The entire vetting process was estimated to take about three

months. The enterprises concerned could then proceed with the project and upon completion, submit final project report and audited accounts. When the report and accounts were accepted by the Government, funding would be disbursed and cash flow would be triggered. At Mr CHU's request, the Administration undertook to provide the basis of the estimate for the cashflow of RFS from 2020-2021 to 2024-2025, including the estimate of the progress of vetting proposed projects during each of these years.

[*Post-meeting note*: The supplementary information provided by the Administration was issued to members vide LC Paper No. FC 253/19-20(01) on 21 July 2020.]

Microelectronics Centre

Cost concerns

36. Mr Tony TSE said that the $2 billion for the development of the Microelectronics Centre ("MEC") was significant and the cost would amount to about $5,000 per sq ft. He sought details of the cost and how the Administration would monitor the expenditure and ensure that HKSTPC would spend the funding properly on the MEC. Mr WU Chi-wai also commented that the cost of the project was on the high side.

37. S for IT said that the $2 billion would be injected as equity to HKSTPC which would be responsible for developing and managing the MEC. The Government would closely monitor the progress of the project. PS(IT) said that when estimating the budget for MEC, the Government had taken into consideration the costs required to build bespoke facilities required by the microelectronics sector, and had made reference to other works projects such as the Advanced Manufacturing Centre. Chief Financial Officer, HKSTPC added that about 30% of the project cost would be for dedicated facilities such as clean rooms, dangerous good storage, electrical and mechanical facilities, and sewage treatment systems. After deducting the cost incurred for the dedicated facilities, the estimated cost of the modification works for MEC would be about $35,000 per sq m.

38. Mr Tony TSE considered that more information was required regarding the $2 billion for injection as equity to HKSTPC. Mr CHU Hoi-dick and Dr Junius HO also considered the information provided by the Administration on RFS and MEC in FCR(2019-20)40 too brief. S for IT said that the Administration had provided information to relevant LegCo panel, and would continue with such efforts to facilitate members'

understanding. At Mr TSE's request, the Administration undertook to provide in writing the breakdown of the $2 billion for the development of the MEC, together with the considerations and criteria adopted when drawing up this estimate, including but not limited to the types, numbers and floor areas of dedicated facilities as well as the number of companies to be accommodated therein; and how the construction cost would compare with those of similar facilities such as the Advanced Manufacturing Centre.

[*Post-meeting note*: The supplementary information provided by the Administration was issued to members vide LC Paper No. FC253/19-20(01) on 21 July 2020.]

39. Mr WONG Ting-kwong asked whether the $2 billion for HKSTPC was Government's investment for the development of MEC, and how the income generated such as rental would be shared between the Government and HKSTPC. S for IT and PS(IT) said that the $2 billion would be an injection to provide HKSTPC with the capital to develop MEC for rental to tenants of the microelectronics industry. HKSTPC, with the Government as its only shareholder, would manage MEC and keep the rental generated. The consultancy study commissioned by the Government had estimated that the MEC would generate an added value of over $600 million annually.

40. Mr SHIU Ka-chun enquired whether further injection into MEC was envisaged if Hong Kong could not catch up with the international market; and if the setting up of the MEC would compete with or be subsumed under the development of the semi-conductor industry in the Guangdong-Hong Kong-Macao Greater Bay Area. PS(IT) said that the Government was not aiming to compete with large-scale wafer fabrication facilities in the neighbouring cities, which normally required relatively large site area. MEC would be mainly for pilot batch and prototype productions for the chip design sector, in which Hong Kong was relatively strong, and this would tie in with the needs of the production chain in Asia.

Support for microelectronics industry

41. Mr WU Chi-wai sought clarification on whether MEC would itself be an operator and provide relevant facilities to tenants engaged in R&D and small batch production, or if different I&T enterprises would make use of MEC to conduct their own R&D work. He did not see how I&T enterprises would procure their own machinery and then make use of the communal facilities in MEC just for the small batch production of prototypes.

42. S for IT said that MEC would make available production areas and dedicated facilities such as clean rooms and sewage facilities for tenants who in turn would procure their own equipment. Head of Advanced Manufacturing, HKSTPC ("H of AM, HKSTPC") explained that HKSTPC would provide support to enterprises in two respects: the provision of dedicated production facilities which might be difficult for SMEs to set up individually as specific licences would be required; and the provision of shared laboratories for product quality control and reliability testing analysis. As the business activities in MEC might involve IPs owned by the tenants, HKSTPC would not take part in the production process, and the tenants would have to procure their own production machinery and equipment. Around eight to 10 enterprises were expected to be admitted to MEC.

43. Mr WU Chi-wai said that the facilities and equipment in MEC should all be high-tech. As the United States ("US") was tightening the export of high-tech strategic materials, he enquired if Hong Kong would be adversely affected. S for IT pointed out that Hong Kong operated as a separate customs territory, and the Government would closely monitor the development of the China/US trade situation. In response to Mr WU on whether S for IT had conveyed concerns on the trade war to the Chief Executive and his colleagues in the Government, S for IT said that the Administration was confident of the positioning of Hong Kong as well as the development of high-value production lines in Hong Kong.

44. With reference to paragraph 5 of FCR(2019-20)40, Mr LEUNG Yiu-chung enquired about the details of the manufacturing facilities to be provided by HKSTPC with the allocation of the $2 billion. CIT said that the development of MEC with dedicated facilities was aimed at encouraging microelectronics industries to set up production lines therein.

45. In response to Dr CHENG Chung-tai on the targeted type of enterprises for moving into the MEC, PS(IT) said that these should mainly be enterprises engaged in microelectronic industries in which Hong Kong was relatively strong, such as the design and packaging of chips. As the development of the Internet of Things, in particular, necessitated many sensors which involved a variety of chips, many start-ups and SMEs specializing in these areas required dedicated facilities to facilitate small batch and prototype production. The provision of such facilities in MEC would tie in with and be conducive to the development of the microelectronics industry in Hong Kong.

46. Dr CHENG Chung-tai expressed worries that MEC might be set up for political purpose, and used as a backdoor for the shipment of strategic

commodities. He also remarked that the US Government had targeted at IT enterprises in the Mainland, and this would impact on the relevant production chains. S for IT said that the University of Science and Technology of Hong Kong had also set up a microelectronics centre, but its scale was too small to satisfy the needs of the industry. The Administration had consulted the industry and ascertained their needs, and understood their difficulty in investing in dedicated facilities for the microelectronics industry.

47. Mr Alvin YEUNG enquired if HKSTPC knew of enterprises which might want to rent spaces in MEC. CIT said that over 10 microelectronics enterprises had indicated interest to HKSTPC in moving into MEC. H of AM, HKSTPC supplemented that over half of these enterprises were local ones and some were start-ups from the incubation programmes of HKSTPC. Some were specialized in silicon carbide production technology and were aiming for small batch production and business expansion.

48. Mr Alvin YEUNG asked for elaboration on: (a) the background of the non-local enterprises; (b) whether all of the 10 plus enterprises could be accommodated in the MEC, and the selection criteria if applicable; and (c) whether pre-conditions could be set such as according priority to enterprises which undertook to recruit Hong Kong talents.

49. H of AM, HKSTPC said that the non-local enterprises included those from the Mainland, Taiwan and Japan. Admission process would be put in place to select enterprises with high value-adding operations and dedication to R&D work. S for IT added that local talents and university graduates should be available for joining the manpower market. He agreed that more opportunities should be given to local talents. At the same time, it would be necessary to review the manpower requirements of MEC when it was about to commence operation, with a view to striking a balance between the manpower requirement and the supply chain. Favourable consideration might be given to companies which would undertake to recruit more local talents and university graduates.

Creation of jobs

50. Mr SHIU Ka-chun referred to the 1 400 staff of local enterprises who had received technology training and enquired: (a) if the Administration had requested these talents to remain in Hong Kong for work after training; and (b) if not, how the Administration could ensure that they would not leave Hong Kong for the Mainland or other cities. Separately, given that the microelectronics industry markets in the

Mainland, South Korea, Taiwan, and Singapore were fully-fledged, Mr SHIU asked if the Administration had any means to attract talents from these places to Hong Kong. He also wanted to ascertain if local talents were available to develop MEC, or if the Administration had to rely on talents from outside Hong Kong under the Technology Talent Admission Scheme.

51. PS(IT) explained that subsidies had been provided under the RTTP for 1 400 serving employees to be retrained in advanced technologies. This was conducive to the nurture of local talents. As compared to other cities, Hong Kong had an edge in developing the microelectronics industry, as demonstrated by the many local companies which excelled in chip design and chip packaging. The development of MEC would assist these companies in producing prototypes. She also said that the Government's strategy had all along been in pooling talents. While talents would be nurtured locally, it was also necessary to attract talents from outside Hong Kong for sectors where local talents were not adequate. This two-pronged approach would foster I&T development in Hong Kong. In response to Mr SHIU on whether there were projections on the ratio of local versus overseas talents for developing MEC, PS(IT) said that no such ratio was set and it would be in Hong Kong's best interest to make use of the two sources in parallel.

52. Mr CHAN Chi-chuen remarked that the number of jobs to be created through the re-industrialization of Hong Kong was an indicator of the effectiveness of ITB's work. Mr CHAN and Mr LUK Chung-hung sought response on the estimated number of job creation in the MEC. S for IT said that it was estimated that the MEC would create about 420 direct job opportunities, but this figure might vary depending on the applicants and the production lines of the tenants concerned. Regarding the effectiveness of ITB's work, S for IT said that the number of employees, including founders, employed by start-ups, had risen from about 3 000 five years ago to over 12 000 in 2019.

53. Ms Claudia MO asked for the basis of the Administration's estimate on the economic benefits brought about by MEC to help meet the industry's demand for advanced manufacturing facilities in the near term. CIT said that HKSTPC had commissioned a consultant to conduct an economic impact assessment of MEC. The study concluded that the project would create about 420 direct job opportunities and generate a value added of over $600 million annually. S for IT supplemented that of the about 420 jobs, the majority would be employees of tenants of MEC, and the remainder few would be staff employed by HKSTPC for managing MEC. The value added comprised the creation of job opportunities both directly

by the tenants and indirectly in ancillary industries such as logistics, consultancy, market promotion, etc.

54. Ms Claudia MO enquired about the firm which conducted the consultancy study, and if the consultancy report could be uploaded onto the relevant website. H of AM, HKSTPC said that the consultancy firm concerned was Pricewaterhouse Coopers Hong Kong. S for IT said that it might not be appropriate to upload the entire consultancy report onto the website as it contained commercially sensitive information. The Administration undertook to consider provision of the relevant information to members through an appropriate means.

> [*Post-meeting note*: The supplementary information provided by the Administration was issued to members vide LC Paper No. FC253/19-20(01) on 21 July 2020.]

Re-industrialization of Hong Kong

Economic benefits

55. Ir Dr LO Wai-kwok said that he strongly supported the funding proposals. The CuMask+^{TM} case demonstrated that many local enterprises possessed the supply chain, basic technology and production management skills for the production of good quality masks. In addition, many local enterprises had also mastered high-end technologies such as in the production of the monitor and the earphone for mobile phones, and the development of drones and unmanned ships. It might not be necessary to insist on where the merchandise was manufactured, having regard to the fact that many European and American I&T products were making use of the global production network for manufacture. Optical, mechanical and electronic integration was essential in this I&T era, and the professionals concerned were longing for the recognition and utilization of their strengths in order to contribute to the economic growth of Hong Kong.

56. S for IT agreed and said that the sound legal system, robust IP protection regime, and the good professional knowledge and quality control system together provided a solid base for the re-industrialization of Hong Kong. He was confident that, with the concerted efforts of the Government, the legislature and the industry, Hong Kong had the capability to take forward re-industrialization with manufacturers relocating high quality industries and production lines back to Hong Kong.

57. Dr Fernando CHEUNG took the view that the mode of making use of the global network for managing the production chain was changing, and

China's role as the world's factory was receding. This reversing trend and the promotion of protectionism had all the more impacted on the needs of Hong Kong. To cope with this change and as RFS should have the propriety of the relevant patents, he enquired if pre-conditions would be applied, such as a specified percentage of production being in Hong Kong or the use of such products remaining in Hong Kong, to avoid the price of products being maneuvered by multi-national enterprises.

58. S for IT said that while Hong Kong possessed strong R&D capability, more support was needed in some areas like the availability of specialized production venue and the commercialization of R&D outcomes. The CuMask+™ case was an example. He added that another subsidy scheme was in place to assist in patents application. Re-industrialization would help develop Hong Kong into a production base for patented products.

59. Mr Jeffrey LAM said that one's dedication was essential for resolving issues. For example, it had taken him less than 30 days to produce masks locally. This included the design of the machinery, setting up of the production plant which was up to ISO standard, acquisition of raw materials, production work being undertaken by Hong Kong people, and the masks being sold at cost price. He was confident of Hong Kong's capability to produce masks on its own from start to finish in the foreseeable future. He echoed the view that Hong Kong had talents in various sectors of the I&T industry, and saw a need to strengthen the local I&T production base. While he was supportive of both funding proposals, he enquired about the Administration's future plans for the re-industrialization of the I&T industry as it encompassed a wide scope.

60. S for IT agreed that Hong Kong had the capability, edge and talents, as well as devoted industrialists for re-industrialization. He added that many programmes were in place to nurture talents and help start-ups recruit university graduates and postdoctoral talents.

61. Mr LUK Chung-hung saw a need for a mechanism to attract R&D and I&T outcomes from the Mainland to Hong Kong. He quoted the internationally acclaimed "Nature Index" which showed that I&T thesis in the Mainland ranked only second to the US in terms of number and ratio; and the quality of such thesis was very close to those of the US and the European Union. Mr LUK said that with the robust R&D and I&T situation in the Mainland and the strong intellectual property regime in Hong Kong, the Administration should aim for the production of Mainland technologies in Hong Kong on a small scale and which were forward looking.

62. S for IT said that the Government's strategy comprised both nurturing local talents and attracting overseas talents to Hong Kong. He pointed out that five local universities were among the first 100 universities worldwide, and the interaction of experts from the Mainland and overseas in Hong Kong had helped internationalize local talents. He said that both artificial intelligence and robotics as well as healthcare technologies were areas with high development potentials.

63. Dr CHIANG Lai-wan said that Hong Kong's GDP had to rely on its industries, but the Bloomberg Innovation Index showed that Hong Kong's position had dropped from 34 in 2015 to 39 in 2020. Over 70 microelectronics centres had already been established in Asia, and the proposed development of a centre in Hong Kong lagged far behind. Furthermore, many experts were leaving Hong Kong. She considered that Hong Kong had an advantage, both in terms of its geographical location and trade capabilities, for the development of industries and urged the Administration to enhance its efforts in making use of Hong Kong as a hub. Dr CHIANG enquired if the Administration had undertaken any feasibility study in this respect.

64. S for IT said that re-industrialization was part and parcel of the Government's I&T policy. He assured members that the Government would strive to achieve the goal.

65. Mr Andrew WAN enquired if ITB had consulted HKSTPC, the Hong Kong Cyberport Management Company Limited and local universities on Government-assisted R&D outcomes which had been produced and commercialised. He asked if ITB would proactively discuss with local universities and research institutes.

66. S for IT said that there were many examples of quality R&D outcomes of HKSTPC and Cyberport companies and other R&D institutes having been commercialised; these included for example remote temperature detection deployed during the epidemic. He took note of Mr WAN's concerns and agreed to conduct more publicity and promotion. PS(IT) added that six or seven unicorns had emerged in Hong Kong in recent years. One such example was a healthcare company providing innovative non-invasive prenatal diagnostic tests, which was a breakthrough technology being used on pregnant women in over 100 countries; the technology was evolving to the early detection of cancer. This was an example of Hong Kong-based R&D work in university with support from the Government.

Action

67. Ms Claudia MO sought justification for the allocation of significant sums of public money to the I&T industry in recent years. S for IT said that taking forward the development of I&T in Hong Kong was not solely for the I&T industry, nor was MEC just for the microelectronics industry. They also served to improve citizens' livelihood and enhance the local economy. RFS was for supporting high-tech industries to improve the local economic situation and create job opportunities. All these efforts were for providing impetus to the economic development of Hong Kong. In response to Ms MO on how the provision of subsidy for the I&T industry could benefit the average citizens, S for IT said that the investment was in different areas including the nurture of I&T talents, infrastructure, technology adoption by SMEs, setting up of high-value production lines in Hong Kong, etc. The focus was not on particular industries but the enhancement of the competitiveness and the economic impetus of Hong Kong as a whole.

Supply of land

68. Mr Andrew WAN expressed concerns on the availability of land to facilitate the operation of smart production lines, and if vacant sites were available in industrial estates for rental to enterprises which had the advanced technologies and production design ready, but were in lack of land for production. He asked if high-tech enterprises in the I&T industry had approached ITB for assistance; if so, where these enterprises were from and the technologies involved; and if land would be made available in Liantang for the I&T industry.

69. PS(IT) said that there were enterprises that approached HKSTPC and asked for manufacturing space. Meanwhile, the Administration had been addressing the demand for land from the I&T sector through various means. Vacant old factory buildings in industrial estates would be modernised and converted for rental to multiple enterprises, such as in the case of the MEC. The completion of the Advanced Manufacturing Centre in Tseung Kwan O in 2022 would provide more production space for the advanced manufacturing industries. HKSTPC would also consider granting sites to enterprises if they needed to custom-build their manufacturing plants. The site reserved in Liantang/Heung Yuen Wai Boundary Control Point was for the long-term development of industrial estates. H of AM, HKSTPC supplemented that both overseas enterprises and local start-ups from various industries, such as data centres, pharmaceutical companies, etc., had approached HKSTPC for assistance.

70. In response to Mr Andrew WAN's further enquiry on whether the demand for space and land of the I&T industry could be satisfied, S for IT

said that RFS would provide the financial support and the flexibility for the production lines to be set up in or outside industrial estates. While special assistance would be provided to dedicated and high-value production lines, enterprises being the owners of the production lines would, after obtaining Government subsidy and in normal circumstances, have the responsibility to set up their own production lines.

CuMask+™

71. In connection with the re-industrialization of Hong Kong, some members expressed concerns on the CuMask+™ which was manufactured outside Hong Kong.

72. Dr KWOK Ka-ki expressed worries on $800 million being spent for the production of the CuMask+™, and asked for documentary evidence on whether copper used in the mask could combat virus and whether the mask could kill coronavirus. He added that the Secretary for Food and Health was unable to advise at the meeting of the Panel on Health Services whether the CuMask+™ was anti-virus.

73. S for IT stressed that the CuMask+™ was for helping Hong Kong people to combat the epidemic. While all Government bureaux had their respective roles during the pandemic, ITB was responsible for the production of the mask. There were scientific literature showing the effectiveness of copper in inactivating virus and bacteria. The Government would make public the audited account upon completion of the entire project.

74. Mr Michael TIEN enquired whether it was feasible to replace the outer layer of the CuMask+™ to improve its outlook while retaining its filter. S for IT welcomed suggestions to improve the outlook of the CuMask+™. He said that the mask in its entirety was tested at laboratories, which confirmed that it met the ASTM F2100 Level 1 standard.

75. Dr CHENG Chung-tai enquired if the Administration had sought advice from the medical profession when producing the CuMask+™. He took the view that surgical masks were more cost effective. S for IT said that the Government considered the need to produce reusable masks as there was acute shortage in supply in February and March 2020 and that disposable masks were less environment-friendly. It was thus considered desirable to produce a reusable mask which met the ASTM standard.

76. Mr KWONG Chun-yu enquired about the details of the $800 million expenditure for the CuMask+^{TM}, and how the Administration could avoid the direct engagement of contractors in future to alleviate conflict of interest concerns. S for IT said that the average unit cost of each CuMask+^{TM} was expected to be below $40. The $800 million was the budget reserved, and the Government would make public the audited report upon completion of the entire project, and any residual funds would be returned to the Treasury. He re-iterated the severity of the epidemic in February and March 2020 when there was acute shortage of masks worldwide, and the Administration was confronted by a major challenge in providing effective masks expeditiously to Hong Kong residents. As time did not allow for the normal tender process and many factories had ceased operation in February and March, the Government had decided on direct procurement as permitted under the relevant procedures. Given that time had become a less critical factor and many factories had resumed operation, the Administration could in future call for tenders for the procurement of relevant services if a similar exercise was needed. In response to Mr KWONG on whether the CuMask+^{TM} would pose health risks to the elderly, S for IT said that the entire mask had been tested for ASTM F2100 Level 1 standard and its filtering performance had been confirmed.

77. Dr Pierre CHAN enquired how the CuMask+^{TM} could be disinfected. He also asked for details of the communication made with the medical profession for the production of the CuMask+^{TM}. S for IT said that the CuMask+^{TM} was for use in the community and might not be suitable for use in hospitals and clinics. There was an instruction leaflet and a video on the CuMask+^{TM} website on how the mask should be washed. PS(IT) said that ITB had communicated with the Department of Health ("D of H") mainly on the following aspects, i.e., that the CuMask+^{TM} was for general protection in the community and not for medical purpose; the mask was not all-purpose and hand hygiene was important; and that the mask was not suitable for children under the age of three. In relation to the Government's advice that ITB had consulted the Food and Health Bureau/D of H when designing and producing the CuMask+^{TM}, the Government could provide further information.

> [*Post-meeting note*: The supplementary information provided by the Administration was issued to members vide LC Paper No. FC253/19-20(01) on 21 July 2020.]

78. Dr Pierre CHAN said that he was supportive of both re-industrialization and support for the I&T industry. He considered the CuMask+^{TM} case not ideal in that while it had showcased the innovation element, it was a low-tech product. Dr CHAN added that some scientists

had published a review report in January 2020 about the disinfection of masks on the basis of 23 tests, and urged the Administration to bear in mind the need to grasp the basic technological knowledge. S for IT said that an I&T outcome might involve co-ordination by different professions, and that the entire I&T process started from the basic learning stage of STEM in school, to R&D, production and commercialization.

Voting on FCR(2019-20)40

79. At 4:20 pm, the Deputy Chairman put item FCR(2019-20)40 to vote. At the request of members, the Deputy Chairman ordered a division. The Deputy Chairman declared that 35 members voted in favour of and 12 members voted against the item, and 3 members abstained from voting. The votes of individual members were as follows:

For:

Mr Abraham SHEK Lai-him	Mr Tommy CHEUNG Yu-yan
Prof Joseph LEE Kok-long	Mr Jeffrey LAM Kin-fung
Mr WONG Ting-kwong	Ms Starry LEE Wai-king
Dr Priscilla LEUNG Mei-fun	Mr WONG Kwok-kin
Mrs Regina IP LAU Suk-yee	Mr Paul TSE Wai-chun
Mr Steven HO Chun-yin	Mr Frankie YICK Chi-ming
Mr YIU Si-wing	Mr MA Fung-kwok
Mr Charles Peter MOK	Mr CHAN Han-pan
Mr LEUNG Che-cheung	Mr KWOK Wai-keung
Ms Elizabeth QUAT	Mr Martin LIAO Cheung-kong
Mr POON Siu-ping	Ir Dr LO Wai-kwok
Mr CHUNG Kwok-pan	Mr Jimmy NG Wing-ka
Dr Junius HO Kwan-yiu	Mr HO Kai-ming
Mr Holden CHOW Ho-ding	Mr SHIU Ka-fai
Mr Wilson OR Chong-shing	Ms YUNG Hoi-yan
Dr Pierre CHAN	Mr CHEUNG Kwok-kwan
Mr LAU Kwok-fan	Mr Vincent CHENG Wing-shun
Ms CHAN Hoi-yan	

(35 members)

Against:

Ms Claudia MO	Mr CHAN Chi-chuen
Dr KWOK Ka-ki	Mr Dennis KWOK Wing-hang
Dr Fernando CHEUNG Chiu-hung	Mr IP Kin-yuen
Mr Alvin YEUNG	Mr CHU Hoi-dick
Mr SHIU Ka-chun	Ms Tanya CHAN
Dr CHENG Chung-tai	Mr Jeremy TAM Man-ho

(12 members)

Abstain:
Mr WU Chi-wai Mr HUI Chi-fung
Mr KWONG Chun-yu
(3 members)

80. The Deputy Chairman declared that the item was approved.

Item 2 — FCR(2020-21)5
RECOMMENDATION OF THE ESTABLISHMENT SUBCOMMITTEE MADE ON 8 JANUARY 2020

EC(2019-20)13
HEAD 138 — GOVERNMENT SECRETARIAT : DEVELOPMENT BUREAU (PLANNING AND LANDS BRANCH)
HEAD 91 — LANDS DEPARTMENT
Subhead 000 Operational expenses

81. At 4:28 pm, the Deputy Chairman directed that the meeting be suspended. The meeting resumed at 4:42 pm and the Chairman presided over the meeting.

Voting on FCR(2020-21)5

82. The Chairman put the two proposals in item FCR(2020-21)5 to vote separately.

(a) creation of one supernumerary Chief Land Surveyor (D1) post in the Planning and Lands Branch of the Development Bureau

83. At 4:44 pm, the Chairman declared that 32 members voted for and 19 members voted against the above proposal. No member abstained from voting. The votes of individual members were as follows:

For:
Mr Tommy CHEUNG Yu-yan Mr Jeffrey LAM Kin-fung
Mr WONG Ting-kwong Ms Starry LEE Wai-king
Dr Priscilla LEUNG Mei-fun Mr WONG Kwok-kin
Mrs Regina IP LAU Suk-yee Mr Steven HO Chun-yin
Mr Frankie YICK Chi-ming Mr YIU Si-wing
Mr MA Fung-kwok Mr CHAN Han-pan

Mr LEUNG Che-cheung
Ms Elizabeth QUAT
Mr POON Siu-ping
Mr CHUNG Kwok-pan
Mr Holden CHOW Ho-ding
Mr Wilson OR Chong-shing
Dr Pierre CHAN
Mr CHEUNG Kwok-kwan
Mr Kenneth LAU Ip-keung
Mr Tony TSE Wai-chuen
Mr KWOK Wai-keung
Mr Martin LIAO Cheung-kong
Ir Dr LO Wai-kwok
Mr HO Kai-ming
Mr SHIU Ka-fai
Ms YUNG Hoi-yan
Mr CHAN Chun-ying
Mr LAU Kwok-fan
Mr Vincent CHENG Wing-shun
Ms CHAN Hoi-yan
(32 members)

Against:
Mr James TO Kun-sun
Prof Joseph LEE Kok-long
Mr WU Chi-wai
Mr CHAN Chi-chuen
Dr Fernando CHEUNG Chiu-hung
Mr Andrew WAN Siu-kin
Mr LAM Cheuk-ting
Ms Tanya CHAN
Dr CHENG Chung-tai
Mr Jeremy TAM Man-ho
Mr LEUNG Yiu-chung
Ms Claudia MO
Mr Charles Peter MOK
Mr Dennis KWOK Wing-hang
Mr Alvin YEUNG
Mr CHU Hoi-dick
Mr SHIU Ka-chun
Mr HUI Chi-fung
Mr KWONG Chun-yu
(19 members)

84. The Chairman declared that the said proposal was approved.

(b) creation of one supernumerary Government Land Surveyor (D2) post in the Lands Department

85. At 4:49 pm, the Chairman declared that 40 members voted for and 10 members voted against the proposal. No member abstained from voting. The votes of individual members were as follows:

For:
Mr James TO Kun-sun
Prof Joseph LEE Kok-long
Mr WONG Ting-kwong
Dr Priscilla LEUNG Mei-fun
Mrs Regina IP LAU Suk-yee
Mr Frankie YICK Chi-ming
Mr YIU Si-wing
Mr Charles Peter MOK
Mr Tommy CHEUNG Yu-yan
Mr Jeffrey LAM Kin-fung
Ms Starry LEE Wai-king
Mr WONG Kwok-kin
Mr Steven HO Chun-yin
Mr WU Chi-wai
Mr MA Fung-kwok
Mr CHAN Han-pan

Mr LEUNG Che-cheung	Mr KWOK Wai-keung
Ms Elizabeth QUAT	Mr Martin LIAO Cheung-kong
Mr POON Siu-ping	Ir Dr LO Wai-kwok
Mr CHUNG Kwok-pan	Mr Andrew WAN Siu-kin
Mr HO Kai-ming	Mr LAM Cheuk-ting
Mr Holden CHOW Ho-ding	Mr SHIU Ka-fai
Mr Wilson OR Chong-shing	Ms YUNG Hoi-yan
Dr Pierre CHAN	Mr CHAN Chun-ying
Mr CHEUNG Kwok-kwan	Mr HUI Chi-fung
Mr LAU Kwok-fan	Mr Kenneth LAU Ip-keung
Mr KWONG Chun-yu	Mr Vincent CHENG Wing-shun
Mr Tony TSE Wai-chuen	Ms CHAN Hoi-yan
(40 members)	

Against:

Mr LEUNG Yiu-chung	Mr CHAN Chi-chuen
Mr Dennis KWOK Wing-hang	Dr Fernando CHEUNG Chiu-hung
Mr Alvin YEUNG	Mr CHU Hoi-dick
Mr SHIU Ka-chun	Ms Tanya CHAN
Dr CHENG Chung-tai	Mr Jeremy TAM Man-ho
(10 members)	

86. The Chairman declared that the said proposal was approved.

Item 3 — FCR(2020-21)9

HEAD 152 — GOVERNMENT SECRETARIAT : COMMERCE AND ECONOMIC DEVELOPMENT BUREAU (COMMERCE, INDUSTRY AND TOURISM BRANCH)
Subhead 000 Operational expenses
Subhead 700 General non-recurrent
New Item "Funding Support to the Ocean Park Corporation"

LOAN FUND
HEAD 274 — TOURISM
Subhead 121 Loan for the Ocean Park Redevelopment Plans
Subhead 122 Loan for the Ocean Park's Tai Shue Wan Development Project

87. The Chairman said that this item sought members' approval for:

(a) a supplementary provision of $13.23 million under Head 152 for the Government to take forward a rethink exercise to chart the way forward for Ocean Park's rebirth;

(b) a new commitment of $5,425.64 million under Head 152 for providing funding to the Ocean Park Corporation ("OPC") to support the operation of the Ocean Park for one year (from 1 July 2020 to 30 June 2021), to repay the commercial loans of OPC and to settle the costs for completing the Tai Shue Wan Development Project ("TSW Project") pending completion of the rethink exercise;

(c) an increase of the establishment ceiling of Head 152 in 2020-2021 from $214,856,000 by $3,698,000 to $218,554,000 for the creation of non-directorate civil service posts required for undertaking and following up the rethink exercise; and

(d) amendment of the terms of the Government Loan for the Ocean Park Redevelopment Plans ("MRP") and the Government Loan for the Ocean Park's Tai Shue Wan Development Project ("TSW Project") so that the repayments would commence in September 2021.

88. At the invitation of the Chairman, Mr CHUNG Kwok-pan, Chairman of the Panel on Economic Development, reported that at the meeting held on 20 January 2020, the Panel was consulted on the Strategic Repositioning Plan ("SRP") of Ocean Park and related financial arrangements including a proposed one-off endowment of $10.64 billion. The Panel also passed a motion expressing support for provision of Government funding to take forward SRP but requesting the Government and Ocean Park to further explain in the submission to FC how the funding could be effectively used and the benefits of the new facilities upon their completion. The Administration's response to the motion had been issued vide LC Paper No. CB(4)343/19-20(02).

Role and operation of Ocean Park

89. Whilst noting Ocean Park's enormous contributions to tourism, education and conservation over the past four decades, Ir Dr LO Wai-kwok was gravely concerned about the Park's prospect and how far the proposed

funding could improve its deteriorating financial health. Mr Holden CHOW enquired whether the governing legislation would be amended to empower OPC to raise funds on its own, and about the costs to be borne by the Government if OPC went bust.

90. Dr Pierre CHAN recalled that he used to be a steadfast supporter of Ocean Park, but was concerned that if the Management of OPC failed to make improvement, recurrent financial support from the Government would be required. Dr CHENG Chung-tai said that while the closure of Ocean Park was not of concern to him, he would have strong objection if the Park, upon insolvency, was acquired by Mainland enterprises and converted into a Mainland theme park.

91. Noting members' concerns, Secretary for Commerce and Economic Development ("SCED") and Commissioner for Tourism, Commerce and Economic Development Bureau ("C for T") advised that:

(a) Ocean Park had all along been operated as a public recreational and educational park on a self-financing basis without any recurrent government subvention;

(b) the Park had been fulfilling its social responsibilities through various initiatives such as concessionary or sponsored admission benefitting some 640 000 Hong Kong people including the elderly and socially disadvantaged groups;

(c) severe operational and financial challenges had arisen from intensifying regional competition, the lack of new major attractions, persistent social incidents in the second half of 2019; and the coronavirus disease 2019 ("COVID-19") outbreak resulting in the closure of the Park since 26 January 2020;

(d) without any new funding support, OPC projected that it would become insolvent in June 2020;

(e) it was necessary to conduct a rethink exercise to chart the way forward for Ocean Park taking into account the latest circumstance locally and overseas, while leveraging on the innate advantages of the Park such as its excellent location, branding and strengths on education and conservation;

(f) the proposed funding, if approved, would enable OPC to meet its repayment obligations and sustain operation of the

Park for one year, thereby providing the window for the Government to complete the rethink exercise and come up with an initial plan by end of 2020;

(g) as a statutory body established under the Ocean Park Corporation Ordinance (Cap. 388) ("OPCO"), OPC was not empowered to issue shares or opt for equity financing to raise fund. It was also required to apply all its profits towards the promotion of its statutory functions; and

(h) feasible options, including amendments to OPCO to remove existing operating constraints on OPC, would be actively considered in the context of the rethink exercise.

92. Mrs Regina IP considered the previous proposal to provide a one-off endowment of $10.64 billion to OPC unjustified and lacked a business case. She agreed with the current proposal to provide financial relief to OPC while taking forward the rethink exercise for Ocean Park's rebirth.

93. Mr Charles Peter MOK was of the view that:

(a) apart from appealing to members' emotional attachment to Ocean Park, there was very little justification for the funding proposal;

(b) the Board of OPC as well as the Management should be held accountable for the current performance of the Park; and

(c) it was doubtful whether the Government should make the financial commitment without any assurance of the future prospect of the Park.

94. Mr LEUNG Che-cheung and Mr Kenneth LAU maintained concerns about future uncertainties for OPC and the continuing need for government support. Mr LAU further enquired about attempts, if any, taken by Ocean Park to cope with challenges in recent years.

95. Whilst recognizing the iconic history of Ocean Park, Mr HUI Chi-fung was concerned about its prospect and whether it would be more prudent to seek funding after completion of the rethink exercise.

96. SCED and Deputy Chairman, Board of Ocean Park Corporation ("DC, B of OPC") advised that:

(a) apart from being an iconic brand with great emotional appeals, Ocean Park had made important contribution to Hong Kong's economy, including the additional spending of visitors amounting to over $7.6 billion, providing employment for about 2 000 full-time employees and 2 000 part-time workers;

(b) OPC was well aware of rising competition and changes in relevant markets, and had embarked on a repositioning exercise in 2018 which culminated into SRP; and

(c) despite initiatives to improve the Park's operation, social incidents and the outbreak of COVID-19 in the past 12 months had posed unforeseeable difficulties for Ocean Park.

97. Mr Kenneth LEUNG gave the following views for the Administration's consideration:

(a) many of his constituents did not support the proposed funding while those who did called for the termination of the existing Management and governing board;

(b) Ocean Park's predicament was mainly due to its ambiguous positioning, ineffective management and over-borrowing during the last five years or so;

(c) overseas experience indicated that if properly managed, comparable marine-themed parks were financially viable with an annual attendance below five million;

(d) as a result of substantial capital investment in costly infrastructure including amusement rides, OPC had not only incurred a heavy financial burden but also deviated from its original mission of operating a public recreational and educational park; and

(e) Ocean Park should broaden its scope of activities such as by exploring marine resources and their relationship with mankind.

98. Mr CHEUNG Kwok-kwan supported the current proposal and considered that:

(a) the previously proposed SRP requiring an endowment of $10.6 billion was not a sustainable option;

(b) it was justified for the Administration to proceed with a clean slate in formulating the way forward for Ocean Park;

(c) OPC must fulfil its repayment obligation in order to maintain its credit-worthiness; and

(d) it might not be fair to put all the blame on the existing Management and Board of OPC for the current crisis.

Well-being of employees

99. Sharing the concerns of trade unions that many jobs would be lost if Ocean Park ceased operation, Mr POON Siu-ping stressed the need to safeguard employment. Mr KWOK Wai-keung said that in considering the current proposal, the well-being of employees (including their redundancy payment) and animals were his top priority.

100. SCED said that the current proposal to sustain the Park's operation while Government embarked on a rethink exercise would be conducive to keeping jobs intact. Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) ("PS(CIT)") further explained that:

(a) as OPC was a statutory body, the existing arrangements under the Protection of Wages on Insolvency Ordinance (Cap. 380) might not be applicable to the affected employees should there be a winding-up of OPC;

(b) in case of liquidation of OPC, it was for the court to determine the priority of creditors including employees in their settlement claims;

(c) winding-up of OPC would be the worst scenario, as it would be detrimental to inter-alia the interests of employees and welfare of the animals; and

(d) if OPC were able to repay its creditors for the sums due in the next 12 months with the Government's funding support, that would avoid the scenario of its creditors petitioning the court to wind up OPC.

Concerns about animals

101. Dr CHENG Chung-tai, Mr CHAN Chi-chuen and Mr KWOK Wai-keung were concerned about the arrangements for the animals kept by Ocean Park if OPC went bust. In this regard, DC, B of OPC and Chief Executive, OPC ("CE, OPC") said that:

(a) it had always been OPC's intention to make suitable and orderly arrangements, taking into account the interests of the animals, should OPC be subject to winding up procedures;

(b) as a matter of law however, in the event of a winding-up, it would be up to the court-appointed liquidator to take charge of the selling-off of assets of OPC and related matters, including handling of the animals;

(c) in view of the COVID-19 situation, it would be difficult to identify other high-standard zoological institutions which would have the capacity or resources to look after the welfare of over 7 500 animals from some 400 species; and

(d) this would deal a heavy blow to Hong Kong's conservation efforts.

102. Mrs Regina IP enquired on the conditions of the two giant pandas following their successful natural mating and the chance of pregnancy of the female panda. CE, OPC said that signs of pregnancy if any, such as hormonal level fluctuations and behavioural changes, would not be discernible until June 2020 at the earliest.

103. Ms Claudia MO deplored Ocean Park's acquisition of meerkats amidst its financial distress, and enquired on relevant costs for acquiring/taking care of animals, as well as the cost for the new exhibition centre for meerkats scheduled to open in July 2020. In response, DC, B of OPC and CE, OPC advised that:

(a) located in the children's zone, the new exhibition centre for meerkats and giant tortoises cost about $60 million, and would serve to promote an important conservation message;

(b) contrary to Ms Mo's erroneous assertion, the development of the new exhibition centre was not a recent decision as its planning could be dated back to a few years ago;

(c) very often, animals were acquired through exchange with other facilities and not by purchase; and

(d) the park would always attach utmost importance to animal welfare notwithstanding stringent budgetary controls. The annual expenditure on taking care of animals in the Park and education-related work, including relevant staff costs, was about $300 million.

Issues related to financial arrangements for Ocean Park

Financial position of Ocean Park

104. Mrs Regina IP enquired whether the land resources of Ocean Park and the two hotels in the Park could help boost its revenue. SCED advised that currently, OPC was entitled to receive 1.75% of the annual gross receipts of the two hotels respectively and there was no provision for sale of land within the Park. Nevertheless, the Government took note of Mrs IP's view about the availability of surplus land resources should the Park scale down its operation.

105. Mr CHAN Chi-chuen and Dr Fernando CHEUNG said that all along, members had not been apprised of the financial situation of OPC until now, when they were presented with the options of either approving the proposed funding or letting Ocean Park go bust in June 2020. Sharing a similar view, Dr Helena WONG found it difficult to support the current proposal without any firm assurance on the way forward.

106. SCED referred to the information provided to the Panel on Economic Development on 20 January 2020 regarding SRP, and highlighted that:

(a) Members had been informed back then that the Park's operation and attendance were facing severe challenges and OPC would deplete its cash balance by end-2020 if it was unable to obtain any additional financial resources;

(b) the monthly revenue of Ocean Park was about $100 million while its monthly expenditure, mostly in the form of fixed costs, amounted to some $120 million;

(c) as OPC had been relying on borrowing to finance its development plans, the interest incurred had the effect of constraining its development financially in the long run;

(d) the previously proposed endowment of $10.64 billion aimed at enabling OPC to take forward SRP with a view to achieving financial sustainability; and

(e) the unforeseeable closure of the Park since 26 January 2020 had virtually deprived the Park of any revenue for months, thereby aggravating its financial difficulties. There was an urgent need to embark upon a rethink exercise on the way forward.

107. On Mr LEUNG Che-cheung's concern about assistance available to Ocean Park to cope with the COVID-19 pandemic, SCED recapitulated that OPC was eligible to apply for assistance under the Employment Support Scheme for its payroll and the subsidy scheme applicable to catering industry for the catering establishments inside the park under the Anti-epidemic Fund.

Loans obtained by Ocean Park Corporation

108. In reply to Mr Kenneth LAU's enquiry about OPC's commercial loans, DC, B of OPC said that OPC had borrowed in 2005 and 2013 and so far, had repaid principal and interest totalling some $3 billion.

109. Noting that some $3.1 billion of the proposed funding would be used for repayment of commercial loans, Mr KWOK Wai-keung enquired on the feasibility of a principal moratorium for loan repayment. DC, B of OPC reiterated that OPC had been exploring feasible repayment options with its creditors, and would continue to do so after funding approval.

110. Dr Fernando CHEUNG sought information on other outstanding loans of OPC apart from the commercial loans. PS(CIT) and C for T advised that:

(a) the sum of principal and capitalized interest of the Government loan for the MRP Project and the Government loan for the TSW Project by September 2021 was estimated to be over $5.4 billion;

(b) under the terms of the two loans as previously approved by FC, repayment should commence after the commercial loans were fully repaid;

(c) under the current proposal, repayment of the commercial loans of OPC would take place shortly after the approval by FC; and

(d) to delink the two government loans from the commercial loans, it was proposed to amend the terms of the two government loans so that their repayments would commence in September 2021 and not earlier.

Government rethink exercise and re-positioning of Ocean Park

111. Mr WU Chi-wai said that the Administration should give due regard to the following when conducting the rethink exercise:

(a) before 2003, Ocean Park had operated in furtherance of its statutory functions and was able to derive profits even when the bulk of visitors were Hong Kong people;

(b) OPC had been under a heavy financial burden after embarking on a major redevelopment project in 2005; and

(c) it appeared that continuous capital investment would be required to increase attractions and upgrade facilities in order to attract visitors worldwide.

112. In response, SCED highlighted that:

(a) the statutory role of Ocean Park as a public recreational and educational park had remained unchanged since its commissioning in 1977; and

(b) a review of the positioning of Ocean Park was required as a result of the shift in inbound visitor profile when traditional tours were increasingly replaced by individual visitors.

113. On Mr WU Chi-wai's enquiry on measures to make Ocean Park a welcomed destination for visitors worldwide, SCED said that one of the

latest efforts to promote tourism was to enable inbound visitors to taste local experience, including popular places visited by local people.

114. Mr Jeremy TAM queried why the service commencement of the TSW Project would await the outcome of the rethink exercise; and criticized Ocean Park for not promoting useful educational materials, notably kindergarten educational kits.

115. In this connection, SCED and CE, OPC advised that:

(a) if the TSW Project were to be opened to the public ahead of the completion of the Government rethink exercise, it might pre-empt the outcome of the exercise in terms of the future positioning of Ocean Park;

(b) that said, the rethink exercise would consider the coming into service of the TSW Project in the context of the overall mode of operation of the Park; and

(c) the Park had produced diversified educational materials for subscription by schools, organized STEAM-related projects, worked with schools and organized in-park education programmes that had received over one million students.

116. Dr Helena WONG and Mr Alvin YEUNG stated their views as follows:

(a) the usefulness of the Government rethink exercise at an additional budget of $13.23 million was highly doubtful, as a repositioning exercise had already been carried out in 2018; and

(b) the current difficulties faced by Ocean Park were mainly due to its deviation from its original role and failure to meet the expectation of Hong Kong people, as well as ineffective governance.

117. Mr Alvin YEUNG considered it more effective to appoint a firm specialized in theme park management than to set up a special duty team in the Tourism Commission to conduct the rethink on Ocean Park.

118. On the challenges confronting Ocean Park, C for T supplemented that:

(a) although the attendance of the Park dropped from the peak of 7.7 million in its 2012-2013 financial year ("FY"), the annual attendance was maintained at around 5.7 million to 5.8 million in the past three to four years, showing that the park did have a number of supporters;

(b) all along, Hong Kong residents had accounted for some 40% of visitors to Ocean Park; and

(c) although it recorded positive EBITDA (earnings before interest, taxes, depreciation and amortization) over the past few years, OPC had been carrying a substantial loan exposure and increasingly hefty interest obligation.

119. Mr Alvin YEUNG sought the Administration's views on the recent remarks of Mr C Y LEUNG (former Chief Executive) regarding the Ocean Park. SCED said that the Governmen and OPC were well aware of divergent views on the Park's future, and would take forward the rethink exercise with an open mind.

120. Mr POON Siu-ping sought information on the work of the Ocean Park Review Unit ("OPR Unit") and action, if any, taken by the existing Management. SCED advised that:

(a) during this difficult period, the Park had adjusted its operation while its Management had taken a pay cut; and

(b) the OPR Unit would consider how best to optimize the development potentials of Ocean Park through leveraging on opportunities outside the park and re-examining the existing statutory framework and mode of operation, and would come up with an initial plan within six months (i.e. by end of 2020).

121. Mr YIU Si-wing highlighted the significant achievements of Ocean Park in tourism, education and conservation, without which Hong Kong would lose its competitiveness as a tourist destination. Whilst agreeing that SRP should no longer be pursued, Mr YIU said that the OPR Unit should have regard to the following factors when formulating the way forward:

(a) Ocean Park should be financially viable while fulfilling its social responsibility towards the community of Hong Kong; and

(b) the Park should leverage on its uniqueness, as distinct from other theme parks in the neighbouring region.

122. Mr LEUNG Che-cheung remarked that the violent protests which persisted in 2019 had led to a steep decline in visitors, and enquired on the feasibility of positioning Ocean Park as a theme park targeting mainly Hong Kong people. SCED recalled that over the years, local visitors accounted for a stable percentage (around 40%, or around 2 million to 2.6 million) of the total attendance to the Park each year. The people of Hong Kong had also benefited from various conservation and education initiatives of the Park. The rethink exercise would review how to achieve the optimal attendance mix in future.

123. Mr CHEUNG Kwok-kwan expressed the following views on the repositioning of Ocean Park:

(a) due to the change in visitor profile, the Park should no longer operate as a theme park featuring diversified amusement rides;

(b) its role as a public recreational and educational park should be strengthened; and

(c) with the opening of the TSW Project and other innate attractions, Ocean Park's potentials to become Hong Kong's major leisure destination should be explored.

124. The meeting ended at 7:00 pm.

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