

**立法會**  
**Legislative Council**

LC Paper No. CB(1)604/19-20

(These minutes has been seen  
by the Administration)

Ref : CB1/PL/CI

**Panel on Commerce and Industry**

**Minutes of meeting**  
**held on Tuesday, 17 March 2020, at 2:30 pm**  
**in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon Jimmy NG Wing-ka, BBS, JP (Chairman)  
Hon Alvin YEUNG (Deputy Chairman)  
Hon WONG Ting-kwong, GBS, 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 Dennis KWOK Wing-hang  
Hon Elizabeth QUAT, BBS, JP  
Hon Martin LIAO Cheung-kong, GBS, JP  
Dr Hon CHIANG Lai-wan, SBS, JP  
Ir Dr Hon LO Wai-kwok, SBS, MH, JP  
Hon CHUNG Kwok-pan  
Hon CHU Hoi-dick  
Hon SHIU Ka-fai, JP  
Hon CHAN Chun-ying, JP  
Hon LAU Kwok-fan, MH

**Members absent** : Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Christopher CHEUNG Wah-fung, SBS, JP

**Members attending** : Hon Tommy CHEUNG Yu-yan, GBS, JP  
Hon Holden CHOW Ho-ding

**Public officers  
attending**

: Agenda item IV

Innovation and Technology Bureau

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

Ms Rebecca PUN, JP  
Commissioner for Innovation and Technology

Mr Ivan K B LEE, JP  
Deputy Commissioner for Innovation and Technology

Mrs Millie NG, JP  
Deputy Secretary for Innovation and Technology

Agenda item V

Commerce and Economic Development Bureau

Mr Edward YAU, GBS, JP  
Secretary for Commerce and Economic Development

Miss Eliza LEE, JP  
Permanent Secretary for Commerce and Economic  
Development (Commerce, Industry and Tourism)

Ms Betty HO  
Deputy Secretary for Commerce and Economic  
Development (Commerce and Industry)<sup>3</sup>

**Attendance by  
invitation**

: Agenda Item IV

Hong Kong Science and Technology Parks Corporation

Mr Albert WONG  
Chief Executive Officer

Mr George TEE  
Chief Technology Officer

Agenda Item V

The Hong Kong Mortgage Corporation Limited

Mr Raymond LI, JP  
Executive Director and Chief Executive Officer

HKMC Insurance Limited

Ms Tess LEUNG  
Executive Director and Chief Executive Officer

Ms Irene MOK  
Vice President (SFGS Operations)

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

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

Mr Terence LAM  
Council Secretary (1)3

Ms May LEUNG  
Legislative Assistant (1)3

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Action

**I. Confirmation of minutes of meetings**

(LC Paper No. CB(1)402/19-20 -- Minutes of meeting held on  
17 December 2019

LC Paper No. CB(1)444/19-20 -- Minutes of meeting held on  
21 January 2020)

The minutes of meetings held on 17 December 2019 and 21 January 2020 were confirmed.

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

(LC Paper No. CB(1)404/19-20(01) -- Joint letter dated 4 February 2020 from 22 Members to Chairmen of relevant Panels requesting a joint meeting to discuss issues relating to novel coronavirus infection in Hong Kong)

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

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

(LC Paper No. CB(1)449/19-20(01) -- List of outstanding items for discussion

LC Paper No. CB(1)449/19-20(02) -- List of follow-up actions)

3. Members noted that the next regular Panel meeting would be held on 21 April 2020 at 2:30 pm to discuss the following items proposed by the Administration –

- (a) Progress report of the funding schemes under the Innovation and Technology Fund ("ITF"); and
- (b) Promotion of inward investment.

**IV. Latest development of the Hong Kong Science Park and industrial estates**

(LC Paper No. CB(1)449/19-20(03) -- Administration's paper on "Latest development of the Hong Kong Science Park and industrial estates"

LC Paper No. CB(1)449/19-20(04) -- Paper on the Hong Kong Science Park and Industrial Estates prepared by the Legislative Council Secretariat (updated background brief))

Presentation by the Administration

4. At the invitation of the Chairman, Secretary for Innovation and Technology ("S for IT") briefed members on the latest development of the Hong Kong Science Park ("HKSP") and industrial estates ("IEs"), which were managed and operated

by the Hong Kong Science and Technology Parks Corporation ("HKSTPC"). S for IT said that HKSTPC provided, in addition to infrastructural support, a comprehensive package of support programmes to assist its tenants and incubatees. Details were set out in the Administration's paper (LC Paper No. CB(1)449/19-20(03)).

### Discussion

5. At the start of the discussion, the Chairman declared that he was a member of the Board of Directors of HKSTPC.

#### *Establishment of InnoHK research clusters in the Hong Kong Science Park*

6. Noting that the Administration had received a total of 65 proposals from world renowned universities and research institutes for the two *InnoHK* research clusters to be established in HKSP, Mr Martin LIAO sought details of the progress of the establishment of the *InnoHK* research clusters. He also enquired whether any of such institutions had withdrawn their applications due to the recent global novel coronavirus outbreak and cross-border travel restrictions. Mr CHAN Chun-ying asked how the two *InnoHK* research clusters would contribute to promoting re-industrialization in Hong Kong.

7. Commissioner for Innovation and Technology ("CIT") replied that the *InnoHK* initiative had received enthusiastic response, with a total of 65 proposals from world renowned universities and research institutes received. After a rigorous assessment process, the Administration had been following up with the institutions concerned. As discussion was still in progress, it was not the time to announce the number and the list of laboratories that would be set up in the two *InnoHK* research clusters. Despite the ongoing novel coronavirus outbreak, the overseas research institutions remained keen to establish their presence in the *InnoHK* research clusters. The first batch of research and development ("R&D") laboratories for the two *InnoHK* research clusters was expected to be set up progressively this year.

8. S for IT added that promoting R&D was the key to innovation and technology ("I&T") development and it formed an important part in re-industrialization in Hong Kong. The establishment of the *InnoHK* research clusters would help capture and consolidate Hong Kong's R&D strengths, as well as promote the development of advanced technologies and the relevant local industries, thereby fostering the development of advanced manufacturing industries that were based on new technologies in the long run. While manufacturing activities currently accounted for only about 1% of Hong Kong's gross domestic product, the Administration would continue to actively promote re-industrialization in Hong Kong.

9. Referring to the Chief Executive's announcement in the 2019 Policy Address that the Administration would examine the establishment of the third *InnoHK* research cluster, Mr Martin LIAO and Mr CHAN Chun-ying would like to be briefed on the key considerations in taking forward the establishment of the third *InnoHK* research cluster and its research focus.

10. S for IT said that the Administration positioned the *InnoHK* as a long-term initiative. The 2019 Policy Address Supplement had mentioned examining the setting up of the third *InnoHK* research cluster so as to further promote global R&D collaboration in Hong Kong. The Administration would review a number of factors such as the strengths of Hong Kong and the global technological development in considering the research focus of the third *InnoHK* research cluster. There was no fixed timeline for the establishment of the third *InnoHK* research cluster and the Administration would update the Legislative Council when more details were available.

*Nurturing university start-ups*

11. Noting that HKSTPC had joined hands with The University of Hong Kong ("HKU") to set up the HKSTPC Western District Hub to provide incubation services for university start-ups and strengthen the academic-industry linkage, Mr CHAN Chun-ying asked how many start-ups could be admitted in the HKSTPC Western District Hub. He also enquired about the differences between the incubation services provided in the HKSTPC Western District Hub and the three existing incubation programmes (namely Incu-App, Incu-Tech and Incu-Bio) run by HKSTPC in HKSP, and how could the HKSTPC Western District Hub complement the three incubation programmes.

12. CIT responded that HKSTPC had been providing support on various fronts for start-ups in HKSP through its three existing incubation programmes. In addition, HKSTPC had been proactively enhancing its collaboration with local universities to help start-ups spun off from universities build connections with the industry and providing incubation services in order to facilitate technology transfer and commercialization of R&D results. In this respect, the HKSTPC Western District Hub jointly set up by HKSTPC and HKU had come into operation since February 2020. HKSTPC had also been discussing with other local universities the possibility of having similar collaboration.

13. Chief Executive Officer, HKSTPC ("CEO, HKSTPC") supplemented that the HKSTPC Western District Hub had a total floor area of about 4 000 sq ft which could accommodate up to about eight to 10 start-ups at a time. He also said that many technology start-ups were established by university professors/students. HKSTPC launched the Science and Technology Entrepreneur Programme in

January 2019 to provide pre-incubation support, which included HK\$100,000 seed funding to help them apply their innovative ideas and start their own businesses, etc, for entrepreneurial technology talents. It was roughly estimated that over 40% of the approved applications were originated from students and/or professors of local universities. In view of that, HKSTPC would like to strengthen its linkage with local universities so as to give further impetus to the growth of university technopreneurship and facilitate technology transfer.

Admin

14. As regards the technology start-ups which had been admitted to the three existing incubation programmes operated by HKSTPC, Mr WONG Ting-kwong requested and CEO, HKSTPC undertook to provide the updated numbers of those established by students and/or professors of local universities and those funded by the Technology Start-up Support Scheme for Universities.

*Commercialization of research outcomes of the local universities*

15. Mr WONG Ting-kwong noted that a research team of The Hong Kong Polytechnic University ("PolyU") led by Professor Terence LAU had recently invented a fully automated machine which could detect within approximately one hour up to 40 infectious respiratory pathogens (including novel coronavirus) in a single test. Yet, the research team failed in its application for funding support from ITF for the concerned research project. At the end, Professor Terence LAU's research team relied on the funding support from the Shenzhen Municipal People's Government ("Shenzhen Government") to realize their research outcome. As such, Mr WONG expressed concerns about the effectiveness of the Administration's policies and the lack of adequate support from HKSTPC to help local universities realize and commercialize their R&D outcomes.

16. Mr WU Chi-wai also commented that according to media reports, the reason why the relevant ITF application as submitted by the research team led by Professor Terence LAU was not successful was that the ITF Research Projects Assessment Panel ("the Assessment Panel") had taken the view that the proposed technology had limited novelty. In this regard, Mr WU asked whether the Administration would devise a mechanism to conduct reviews on the decisions of the Assessment Panel so as to ensure that the potential of all applications would be thoroughly considered in future. Mr WU also requested the Administration to closely follow up with unsuccessful ITF applicants of worthwhile projects, with a view to encouraging them to continue with the project by making necessary amendments.

17. S for IT replied that three research teams from local universities had developed technologies which could be applied for rapid detection of the novel coronavirus. S for IT emphasized that all applications for funding under ITF's Innovation and Technology Support Programme were vetted by the Assessment

Panel, comprising members from different sectors including academia, industry and the Government. If an application was not supported by the Assessment Panel, the Administration would notify the applicant of the reasons and encourage the applicant to submit revised application having regard to the Assessment Panel's comments.

18. S for IT also said that the Administration had been proactively promoting the realization and commercialization of local R&D outcomes in Hong Kong. One of the examples was the Multilevel Antimicrobial Polymer coating which was developed by a local university with funding provided for five relevant projects. Moreover, the Administration launched on 9 March 2020 a special call under the Public Sector Trial Scheme ("PSTS") for projects to support product development and application of technologies for the prevention and control of the Coronavirus Disease 2019. CIT supplemented that the funding ceiling for each approved project under this special call for applications was HK\$2 million in general but a higher ceiling for individual projects might be considered if fully justified. The Innovation and Technology Commission had introduced the said scheme to Professor Terence LAU of PolyU and encouraged him to apply for funding for trials of his project in the local public sector.

19. S for IT advised that to assist technology start-ups during their inception stages, HKSTPC collaborated with the industry through its investment matching network to enable technology companies in HKSP to connect with investors from around the world, thereby accessing more investment channels and funding sources. In 2018-2019 and the first nine months of 2019-2020, the technology enterprises in HKSP raised a total funding of some HK\$21.3 billion.

20. Mr WU Chi-wai held that when local research outcomes, such as the project led by Professor Terence LAU, were commercialized outside Hong Kong, Hong Kong's R&D investments would inevitably become the tool for other neighbouring cities to make profits. He urged the Administration to negotiate with the Shenzhen Government for purchasing the devices as invented by Professor Terence LAU's research team at a discounted price so that the devices could be widely used in Hong Kong for early identification of infection cases in order to minimize the risk of community transmission.

21. S for IT replied that Hong Kong and Shenzhen had all along been collaborating on R&D. For instance, the cross-boundary remittance of research funding allowed universities and research institutions in Hong Kong to use Mainland's R&D funding in Hong Kong. The Administration would also encourage the sharing of local research outcomes with the Shenzhen Government, for example, the electronic wristbands used for monitoring people under home quarantine.



*Measures to support innovation and technology start-ups under the epidemic*

22. Mr Charles Peter MOK said that following the global spread of the novel coronavirus virus, the global economy had shown signs of weakening. Companies in HKSP, in particular I&T start-ups, were facing difficulties in raising funds, recruiting overseas and Mainland I&T talents, promoting businesses and opening up new markets amid measures restricting cross-border travels. As the epidemic might last for a relatively long period of time, Mr MOK asked what measures, in addition to the rental waivers for tenants in HKSP and IEs, the Administration would take to help start-ups tide over the difficult times. Mr MA Fung-kwok enquired whether any of the I&T start-ups in HKSP had actually closed down due to the impact of the epidemic.

23. S for IT replied that the novel coronavirus epidemic had disrupted not only the I&T sector but a wide range of economic activities. In particular, the epidemic interrupted the I&T sector's business activities and collaboration with its counterparts in the Guangdong-Hong Kong-Macao Greater Bay Area. Having said that, the epidemic provided I&T communities the opportunities to showcase their talent and creativity in developing technology solutions which could play a part in the anti-epidemic work.

24. S for IT also mentioned that the Administration would provide resources to assist the technology start-ups and retain Hong Kong's I&T capability during the prevailing economic downturn. For instance, the Administration would offer rental concessions to help alleviate the financial burden of I&T companies in HKSP and Cyberport.

25. S for IT further said that before the spread of the novel coronavirus virus, there were already signs of a slowdown in the growth of private investment in I&T around the world. The Administration had continued to help start-ups raise fund through various investment matching platforms. At the same time, I&T companies were encouraged to collaborate with each other to speed up the development of innovative solutions which would in turn help them attract more private investments.

26. CEO, HKSTPC added that more than half of the some 800 R&D companies operating in HKSP were start-ups. As with all other local enterprises, start-ups faced challenges brought by the sharp decline in sales turnover. Nonetheless, while more than 10 companies left HKSP in 2019, over a hundred companies were admitted during the same period.

27. CEO, HKSTPC further advised that in order to assist its I&T tenants in this difficult period, HKSTPC had strengthened its work in (a) providing online business skills training to the I&T start-ups; (b) connecting technology companies

with world-class enterprises through the Global Acceleration Academy to transform technologies into practical solutions for commercial purposes; and (c) supporting the application of technology solutions developed by its I&T tenants (e.g. HKSTPC had recently offered one of its tenants who was specialized in artificial intelligence ("AI") and robotics technologies to try out its newly invented AI-powered fever screening system in HKSP). Besides, HKSTPC would provide more co-working spaces for leasing at an affordable rental to tide graduates of its incubation programmes over the transitional period when they were no longer entitled to the rental subsidy after graduating from the incubation programmes.

28. In response to Mr CHAN Chi-chuen's enquiry on the reasons to cap the rental waivers under the Anti-epidemic Fund at 10 000 sq ft of the rental space for each of the tenants at HKSP, IEs and the InnoCentre, S for IT said that the Administration intended to concentrate its resources on assisting the small and medium enterprises ("SMEs"). CEO, HKSTPC supplemented that among the some 800 R&D companies operating in HKSP, only about 50 of them occupied premises over 10 000 sq ft.

29. CIT added that HKSTPC's tenants renting premises over 10 000 sq ft would still be able to enjoy the rental waiver for the first 10 000 sq ft of the rental space. The concerned tenants had to pay the rent for the remaining portion of their premises according to the respective tenancy agreements. Such arrangement was in line with the 50% rental concession offered by HKSTPC between 1 October 2019 and 31 March 2020.

*Work of the Hong Kong Science Park and the industrial estates in prevention and control of novel coronavirus infection in Hong Kong*

30. Mr LAU Kwok-fan noted that the Government of Macau had made good use of technologies to facilitate the distribution of surgical masks to Macau residents in a convenient way under the novel coronavirus epidemic. Given the strong I&T capabilities of Hong Kong's I&T companies, Mr LAU asked whether the Administration had sourced from I&T companies in HKSP technology solutions that could be used in the course of fighting the disease. Mr CHAN Chi-chuen enquired what contribution HKSTPC and the I&T companies in HKSP had made in the prevention and control of the epidemic situation, given that the Administration had made substantial investment in the development of HKSP over the years.

31. S for IT replied that the Administration adopted a multi-tech approach in home quarantine support. The Logistics and Supply Chain MultiTech R&D Centre had worked together with seven I&T companies to complete R&D, testing and production of the first batch of electronic wristbands within just a few days. Besides, the Office of the Government Chief Information Officer ("OGCIO")

collaborated with a start-up in HKSP which had developed a mobile app that could pair with the electronic wristbands to ascertain that people under quarantine were staying at their dwelling places. While the above had demonstrated that local technological development could be applied for the benefit of local people, the Administration would further promote the use of locally developed technology applications by inviting anti-epidemic projects under PSTS.

32. Mr LAU Kwok-fan further suggested that the Administration should consider developing a mobile app showing places and public facilities that novel coronavirus patients had visited during the symptomatic phase so that members of the public, especially elderlies and chronic patients, could avoid visiting such places as far as possible. Mr Charles Peter MOK added that he had just referred to OGCIO for consideration a technology solution proposed by one of the I&T companies in HKSP which could provide the services as suggested by Mr LAU.

33. S for IT responded that OGCIO had launched the Novel Coronavirus Infection Local Situation Map Dashboard to disseminate latest information on the novel coronavirus epidemic in Hong Kong. The mobile messaging app which was primarily used for monitoring the home confinees' live location had also become an effective channel for elderly-confinees with special needs to seek prompt assistance from the Government.

34. Mr MA Fung-kwok pointed out that the demand on personal protective equipment ("PPE") including masks in Hong Kong had been increasing drastically recently, whilst the global supply for PPE remained tight. Apart from the Mainland, it was very unlikely that other economies in the world would export PPE to Hong Kong. In this connection, Mr MA was of the view that Hong Kong should in the long run set up its own production lines of PPE. He urged the Administration to support home-based production of PPE by earmarking floor space in HKSP or IEs and providing dedicated facilities (e.g. clean rooms), making reference to the development of a trade-specific infrastructure, namely the Microelectronics Centre, in the Yuen Long IE.

35. Noting that the current occupancy rates of Phases 1 to 3 of HKSP and the three IEs were about 84% and 91% respectively, Mr CHAN Chi-chuen asked whether HKSTPC would provide any incentives to encourage local enterprises to take up the vacant space in HKSP and IEs for purposes associated with the prevention and control of novel coronavirus infection in Hong Kong.

36. S for IT responded that since the outbreak of the novel coronavirus virus, HKSTPC had helped make available clean rooms that met the required standards for local production of masks for matching with interested mask manufacturers. Some mask production lines had already commenced operation recently.

37. CIT supplemented that the current occupancy rate of the three IEs was more than 90% and some of the vacant sites were open areas. HKSTPC would continue to identify sites for development of production facilities to encourage smart production. To supplement the Administration's anti-epidemic work, HKSTPC had assisted in identifying suitable factories in the three IEs for manufacturers to establish surgical mask production facilities. Besides, HKSTPC would continue to liaise with existing operators in the three IEs to surrender, as far as possible, floor space as well as clean room facilities for production of masks.

*Developing innovation and technology infrastructure*

38. Noting that the Financial Secretary ("FS") had earmarked HK\$3 billion in the 2020-2021 Budget for the Phase II of the Science Park Expansion Programme ("SPX2"), Mr Martin LIAO sought details of the expansion programme, in particular the respective proportion of the new floor space to be earmarked for R&D activities conducted by (a) private enterprises and (b) universities as well as R&D Centres.

39. CEO, HKSTPC responded that SPX2 would involve a gross floor area of about 28 000 sq m which would mainly be used to provide additional laboratories to support R&D activities in HKSP. Subject to completion of various technical feasibility studies and going through all statutory and other necessary procedures, it was estimated that SPX2 would take about two to three years to complete.

40. Regarding the proposed Microelectronics Centre to be developed in the Yuen Long IE, Mr Martin LIAO was keen to ensure that, subject to the funding approval by the Finance Committee ("FC") by mid-2020, HKSTPC would complete the works within budget and on schedule (i.e. by 2021) given that the Microelectronics Centre would create about 420 direct job opportunities. CIT advised that subject to FC's approval of the funding proposal, HKSTPC would commence the modification works as early as possible, with a view to completing the development by 2021.

41. Noting that HKSTPC had invited proposals for leasing of the Advanced Manufacturing Centre ("AMC") in April 2019, Mr CHAN Chun-ying enquired whether HKSTPC would accord priority to companies involved in the four major technology fields, namely biomedical technology, AI and robotics, smart city and financial technology ("fintech").

42. CIT responded that AMC would be completed in 2022 and HKSTPC was discussing with several technology enterprises which were interested in taking up the floor space in AMC. CEO, HKSTPC supplemented that electronics, medical appliances, smart city and robotics were the focused areas of AMC. While fintech might not be suitable for admission to AMC, which was purposely-built for

smart manufacturing, HKSTPC would also engage the industry to drive the development of fintech in Hong Kong.

43. Mr WU Chi-wai referred to the Administration's appeal to the business sector to convert land and premises that would be left idle for three years or more into transitional housing, and questioned whether the Administration would commence constructing new IEs in the coming three years on the reserved 56-hectare site near the Liantang/Heung Yuen Wai Boundary Control Point. If not, he urged the Administration to optimize land use by providing transitional housing on such a spacious site, in order to alleviate the housing problem in Hong Kong.

44. CIT responded that the results of the relevant preliminary planning study indicated that the development of the site as new IE was technically feasible. HKSTPC was carrying out a study on the development vision in order to formulate an appropriate land use proposal and would commence the engineering and technical feasibility study in due course. CIT remarked that the land of the site had yet to be formed, and it lacked infrastructure and related facilities. Any proposal for converting the site into housing development could only be taken forward after completing the necessary works, which would take a long period of time. CIT also pointed out that there were examples that sites originally reserved for I&T uses had been released.

45. Mr Charles Peter MOK said that the persistent imbalance in land demand and supply for data centre development had impeded the development of local data centre industry. While the demand for data centre services, driven by factors like the launch of the fifth generation mobile services in the near future, was expected to grow significantly in the long run, he enquired the progress of making available more land, both within and outside the existing IEs, for data centre development.

46. S for IT responded that the Administration was committed to promoting the development of data centre industry in Hong Kong by providing land for setting up data centres. Since 2012, the Administration had launched a concessionary scheme to encourage the development of data centres by converting existing industrial buildings and redeveloping industrial lots. With technology advancements in modular data centres, more industrial buildings could become suitable for such use. Moreover, the Administration had commissioned a consultant to carry out a study on the long-term development of the data centre industry in Hong Kong.

47. CIT supplemented that HKSTPC was developing in the Tseung Kwan O IE the Data Technology Hub ("DT Hub") which would be completed in the first half of 2020. HKSTPC had started inviting proposals for leasing of the DT Hub. Apart from that, the Administration had reserved sites for future development of

IEs. When conducting master planning study for individual reserved sites, HKSTPC could consider allocating land/floor space for data centre development, among other land use options.

*Others*

48. Noting that the Administration had earmarked HK\$800 million under the Anti-epidemic Fund for funding technology applications that enabled reusability of masks, Mr CHAN Chi-chuen enquired about the progress. S for IT responded that the Administration was reviewing various options on the production of reusable masks for members of the general public. The Administration would provide further details as soon as possible.

**V. SME Financing Guarantee Scheme - Special 100% Guarantee Product**

(LC Paper No. CB(1)449/19-20(05) -- Administration's paper on "SME Financing Guarantee Scheme - Special 100% Guarantee Product"

LC Paper No. CB(1)449/19-20(06) -- Paper on the SME Financing Guarantee Scheme prepared by the Legislative Council Secretariat (updated background brief))

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

Presentation by the Administration

50. At the invitation of the Chairman, Secretary for Commerce and Economic Development ("SCED") briefed members on the Administration's proposed introduction of a new 100% loan guarantee product ("Special 100% Guarantee Product") under the SME Financing Guarantee Scheme ("SFGS") administered by the HKMC Insurance Limited ("HKMCI"), and sought the Panel's support for the relevant funding proposal of a total loan guarantee commitment of HK\$20 billion, with expected maximum expenditure of HK\$5.625 billion to be submitted to FC for approval. Details were set out in the Administration's paper (LC Paper No. CB(1)449/19-20(05)).

Discussion

*Scheme structure and loan recovery*

51. Mr CHAN Chun-ying declared that he was a consultant of a bank which might become one of the participating lending institutions ("PLIs") for the Special 100% Guarantee Product under SFGS. Mr CHAN welcomed the Administration's proposed introduction of the Special 100% Guarantee Product which had long been called for by the business sector. He then enquired about the timing of transferal of the loans to The Hong Kong Mortgage Corporation Limited ("HKMC") without recourse to PLIs after the loan drawdown by PLIs.

52. Executive Director and Chief Executive Officer, HKMC ("ED/CEO, HKMC") said that under the 80% and 90% Guarantee Products, the credit facilities were provided by PLIs following formal credit assessment procedures with PLIs determining the interest rates; whereas under the Special 100% Guarantee Product, the credit facilities would be provided by HKMC direct, and the necessary enforcement and debt recovery expenses would be borne by HKMC in the event of default. The timing of transferal of the loans to HKMC might vary from PLI to PLI, and would be subject to discussion between HKMCI and PLIs, as certain PLIs might prefer a batch transfer approach while some other PLIs might not. Whichever the approach would be, the timing of loan drawdown by the loan applicants concerned would not be delayed.

*Financial implications of the Special 100% Guarantee Product*

53. Mr CHAN Chun-ying enquired about the rationale behind HKMCI's ceasing to provide any loan guarantee beyond the HK\$20 billion loan guarantee commitment or when the expenditure for settling default claims and related costs was about to reach HK\$5.625 billion.

54. ED/CEO, HKMC said that similar to the operation under the 80% and 90% Guarantee Products, HKMC would report regularly to its Board of Directors and the Hong Kong Monetary Authority ("HKMA") the latest position of loan drawdown and default rates. HKMCI would discuss with PLIs on the point of ceasing to provide further loan guarantee when the loan commitment reached the HK\$20 billion limit, or when the expenditure for settling default claims and related costs was about to reach HK\$5.625 billion, so as to control the default rate.

*Eligibility*

55. Mr MA Fung-kwok said that the sports, performing arts, culture and publication sectors were hard hit by the novel coronavirus epidemic. He enquired whether arts institutions such as music stores, dance and drawing studios, and sports

institutions including gyms and martial arts training centres, as well as not-for-profit arts and recreational organizations would be eligible to apply for loans under the Special 100% Guarantee Product. Mr MA also enquired about the loan eligibility criteria with regard to the decline in sales turnover.

56. SCED advised that the Special 100% Guarantee Product was targeted at SMEs of all sectors. Enterprises holding a valid Business Registration Certificate for at least three months by end December 2019, regardless of their business sectors, were welcome to apply. The Special 100% Guarantee Product would also complement various general support measures for all sectors of the economy introduced by FS in the 2020-2021 Budget.

57. ED/CEO, HKMC added that loan applicants were required to provide proofs that they had suffered at least a 30% decline in sales turnover in any month since February 2020 compared to the monthly average of any quarter in 2019, but not loss, in order to qualify for the loan. To substantiate a 30% decline in sales turnover, a loan applicant might provide its full audited financial statements. However, noting that SMEs might not be able to provide formal financial statements, HKMCI would accept their management accounts or bank statements instead.

58. On a related issue, Mr MA Fung-kwok enquired whether the said arts institutions and sports institutions which typically received course fees on a periodic basis would be eligible for the support measures recently announced by the Administration such as the HK\$30 billion Anti-epidemic Fund and the Retail Sector Subsidy Scheme under the Fund.

59. SCED advised that there were 24 specific support measures under the Anti-epidemic Fund targeting different industry sectors, including the catering, tourism and licensed guesthouse sectors. On the other hand, the HK\$5.6 billion Retail Sector Subsidy Scheme aimed to provide direct subsidy to different retailers to help them tide over financial difficulties during this challenging time. The scheme was expected to benefit some 70 000 enterprises. Each eligible retail store would receive a one-off subsidy of HK\$80,000. The first tranche of payment was expected to be made within April 2020.

60. In response to Mr Tommy CHEUNG's and Mr MA Fung-kwok's enquiry about an enterprise's eligibility criteria for the loan application based on Business Registration Certificate, ED/CEO, HKMC advised that the maximum amount of loan per Business Registration Certificate (i.e. per business entity) under the Special 100% Guarantee Product was up to the total amount of employee wages and rents for six months per enterprise, or HK\$2 million at most. For each different branch of the same business entity holding a separate Branch Registration Certificate, the branch concerned would not be treated as an individual business entity for the



purpose of loan application. Each subsidiary company holding a Business Registration Certificate separate from its parent company would be treated as a separate business entity for the purpose of loan application.

61. While expressing support for the Special 100% Guarantee Product, Mr Holden CHOW expressed concern whether under the Special 100% Guarantee Product, PLIs would still adopt stringent loan vetting and approval criteria as they had in the past under the 80% and 90% Guarantee Products. In this regard, Mr CHOW enquired whether HKMCI/HKMA would put in place a monitoring/reporting system for PLIs' loan vetting and approval procedures. He urged HKMCI/HKMA to liaise with PLIs to relax the relevant criteria and expedite the vetting and approval procedures. Sharing a similar view, Ir Dr LO Wai-kwok urged HKMCI/HKMA to liaise closely with PLIs to provide support to SMEs of certain sectors such as construction subcontractors with specific modes of operation, whose tangible assets (i.e. construction machinery) might not be of much mortgage value to PLIs in considering their loan applications.

62. SCED advised that unlike the 80% and 90% Guarantee Products, under the Special 100% Guarantee Product, PLIs would no longer be subject to any default risks as the risk exposure would be totally borne by HKMC. The target recipients of loans were SMEs with genuine need, i.e. those who had suffered substantial decline in sales turnover. That said, as the Special 100% Guarantee Product was financed by public money, financial prudence was necessary for the sake of safeguarding against misuse.

63. ED/CEO, HKMC added that under the Special 100% Guarantee Product, loan applicants were not required to fulfil the normal criteria for credit application. Under this special arrangement, the role of PLIs would be to assess, using their expertise, whether the loan applicants met the qualifying criteria for loan by following certain simplified procedures. As the relevant loans would be transferred to HKMC after drawing down by PLIs, HKMC would report the relevant progress to HKMA direct. In response to the Chairman's further enquiry, ED/CEO, HKMC clarified that PLIs would not be required to assess the borrowing SME's repayment ability under the Special 100% Guarantee Product as in the case of the 80% and 90% Guarantee Products. HKMCI would rely on the professional skills, judgement and care of PLIs in checking the eligibility of loan applicants.

64. Expressing support for the Special 100% Guarantee Product, Mr SHIU Ka-fai and Mr Tommy CHEUNG said that the new guarantee product would provide the much needed liquidity for SMEs which had been hard hit by the social incidents and the novel coronavirus epidemic under the difficult economic environment. They urged the Administration and HKMCI to simplify the relevant vetting and approval procedures and implement the new scheme as soon as possible.

65. SCED said that subject to members' support of the proposed financial commitment for the new scheme, the funding proposal would be submitted to FC for approval on 20 March 2020 at the earliest, and was targeted to be implemented about a month after FC's approval was obtained.

*Loan ceiling and maximum loan guarantee period*

66. Noting that for certain industry sectors such as the cinema and concert sectors, the monthly operating costs might exceed the HK\$2 million limit on loan amount offered under the Special 100% Guarantee Product, Mr MA Fung-kwok urged the Administration to consider raising the maximum amount of loan per enterprise and lengthen the loan guarantee period, as the novel coronavirus epidemic might last for quite some time.

67. SCED said that in parallel with the low-interest Special 100% Guarantee Product which would provide an option of principal moratorium for the first six months from the drawdown of the loan, the existing 80% and 90% Guarantee Products would continue to be provided to eligible SMEs. Together, the existing arrangements with enhancements and the proposed new arrangement would serve to provide comprehensive support to enterprises of different scales.

*Summing up*

68. The Chairman concluded that the Panel supported in principle the Administration's proposed introduction of the Special 100% Guarantee Product and the relevant funding proposal to be submitted to FC for approval.

*(Post-meeting note: The relevant funding proposal was approved by FC at the meeting on 20 March 2020 and launched by HKMCI on 20 April 2020 together with the relevant enhancements approved by FC at the meeting on 18 April 2020.)*

**VI. Any other business**

69. There being no other business, the meeting ended at 4:30 pm.