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Report of the Panel on Commerce and Industry for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Commerce and Industry ("the Panel") during the 2020-2021 session of the Legislative Council ("LegCo"). It will be tabled at the Council meeting of 20 October 2021 in accordance with Rule 77(14) of the Rules of Procedure.

The Panel

2. The Panel was formed by a resolution passed by LegCo on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining Government policies and issues of public concern relating to commerce and industry. The terms of reference of the Panel are in **Appendix I**.

3. The Panel comprises 14 members, with Hon CHUNG Kwok-pan and Hon Jimmy NG Wing-ka elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Trade and investment

Free Trade Agreements and Investment Agreements

4. The Free Trade Agreement ("FTA") and the related Investment Agreement between Hong Kong and the Association of Southeast Asian Nations ("ASEAN") ("the Agreements") took full effect on 12 February 2021. Members welcomed the implementation of the Agreements which would bring much benefit to Hong Kong in terms of

investment protection and lowering tariffs on goods and services, and asked about the measures taken by the Administration to promote Hong Kong's economic and trade cooperation with ASEAN.

5. The Administration advised that the Administration had been adopting the strategies of "going global" and "attracting foreign investment" in promoting Hong Kong's economic and trade cooperation with ASEAN. In attracting foreign investment, Invest Hong Kong ("InvestHK") and the three overseas Economic and Trade Offices ("ETOs") in ASEAN (viz. Bangkok, Jakarta and Singapore) had put much effort in promoting trade in goods and services. With regard to going global, the Administration had been taking forward the work through Hong Kong Trade Development Council ("HKTDC") and the Trade and Industry Department. The geographical coverage of the funding support for small and medium enterprises ("SMEs") under the Dedicated Fund on Branding, Upgrading and Domestic Sales ("the BUD Fund") was also extended to include ASEAN markets in order to help SMEs reap the benefits after signing of the Agreements.

6. Members enquired about the progress for Hong Kong's accession to Regional Comprehensive Economic Partnership ("RCEP") and the advantages the accession would bring about to Hong Kong The Administration advised that the Hong Kong Special Administrative Region ("HKSAR") Government had indicated, as early as in 2018, to individual RCEP participating economies at various levels and on various occasions Hong Kong's keen interest in joining RCEP, and received positive responses that Hong Kong might apply for accession to RCEP in accordance with the relevant provisions after its entry into force. As Hong Kong had already signed FTAs with 13 out of the 15 participating economies of RCEP (i.e. the 10 ASEAN member states, the Mainland, Australia and New Zealand, except Japan and Korea), RCEP would add Japan and Korea to Hong Kong's list of FTA partners. In joining RCEP, Hong Kong would stand to benefit from the unified rules of origin to facilitate international supply chains and reduce export costs in the entire region.

7. As China was the largest economy among the RCEP participating economies, members expressed their views that RCEP would create a conducive environment to promote cross-boundary Renminbi ("RMB") trade settlement and investment, thereby elevating the level of RMB usage in the region. In this connection, members enquired whether the Administration had formulated targeted strategies and measures, through the development of RCEP, to consolidate Hong Kong's status as the world's largest offshore RMB business hub.

8. The Administration advised that as the leading global RMB trade settlement centre, Hong Kong had been supporting different types of cross-boundary and offshore RMB trading activities, developing its offshore RMB financial and foreign exchange markets, as well as rolling out various mutual market access schemes to provide market participants with diversified options and convenient channels for their RMB trading activities. It would closely monitor the development of RCEP and continue its efforts to further promote market development with a view to consolidating Hong Kong's position as a global hub for offshore RMB business.

Promotion of inward investment

9. Noting from a recent survey conducted by the American Chamber of Commerce ("AmCham") on its members in Hong Kong that over 40% of the respondents were considering to leave Hong Kong, members enquired about the impact of such findings on inward investment, and what measures the Administration would take in response to such findings.

10. The Administration advised that international business communities had expressed concerns about the social unrest in Hong Kong since 2019, but they welcomed the restoration of Hong Kong's stability after implementation of the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region ("the National Security Law") in 2020. The Administration added that respondents in the AmCham survey consisted of individuals rather than companies, and no en masse retreat of companies from Hong Kong had been identified so far. Hong Kong's attractiveness as an investment destination with its unique advantage as an international city at the heart of China and Asia, the quality business access it provided to international investors looking to develop the wider regional market, and its rule of law, etc. remained unchanged.

11. Members urged InvestHK to relay any concerns and misunderstandings which the international business communities had about the freedom of Hong Kong to higher echelons of the Government; and to proactively explain to the international communities that Hong Kong was still a free and favourable investment destination, despite some negative news coverage and propaganda about the implementation of the National Security Law and introduction of the Improving Electoral System (Consolidated Amendments) Bill 2021.

12. Members were also concerned about the drop in the number of companies operating as regional headquarters ("RHQs") in Hong Kong by

2.4%, from 1 541 in 2019 to 1 504 in 2020 and the future trend. Given that China was one of the world's largest economies, members opined that there were increased opportunities for Hong Kong to leverage on its unique business advantages and strategic role as a two-way platform for business between the Mainland and the rest of the world.

13. The Administration responded that the situation in Hong Kong was relatively stable with the number of companies operating as RHQs in Hong Kong in 2020 being broadly the same as in 2019. It was believed that the stagnation in Hong Kong's inward investment in 2020 was only a temporary phenomenon primarily driven by the prolonged Coronavirus Disease-2019 ("COVID-19") pandemic.

14. The Administration added that the Chief Executive had announced in the 2020 Policy Address the establishment of the Pan-Greater Bay Area Inward Investment Liaison Group. It enabled InvestHK and its counterparts in other cities in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area") to develop holistic and joint inward investment propositions. Foreign companies would be encouraged to set up operations in Hong Kong and in parallel carry out business activities in other cities in the Greater Bay Area.

15. Members expressed appreciation to the Administration's effort in attracting individuals and financial companies to set up family offices in Hong Kong. The Administration advised that family office business had good development potential in Hong Kong. As a premier asset and wealth management centre, a wide range of investment products, high-potential start-ups/companies, good quality financial services, world-class professional services and talents were available to support the growth of family offices in Hong Kong.

16. The Administration added that InvestHK had kicked off setting up a dedicated Global Family Office Team to connect stakeholders in the industry and catalyze further the development of family office business in Hong Kong. InvestHK would also station family office team members in Guangzhou, Beijing, Brussels, cities in the Middle East and the United States to attract high net worth individuals and financial companies to set up family offices in Hong Kong.

Belt and Road Initiative

17. Regarding members' call on the Administration to help Hong Kong's business and professional services sectors to seize the opportunities arising

from the Belt and Road Initiative ("B&RI"), the Administration advised that Hong Kong served as a springboard for Mainland enterprises to invest abroad and for overseas companies to invest in the Mainland, and expected that the Belt and Road ("B&R") economies would have an increasing demand for financial investment, shipping and logistics, infrastructure, professional services, trade and other sectors which Hong Kong had advantages. In this connection, the Commerce and Economic Development Bureau co-organized with the Ministry of Commerce a joint mission to Central Europe and Middle East in 2019 and would continue to organize similar visits when international travel restrictions were relaxed.

18. The Administration also advised that the Mainland had established a number of overseas Economic and Trade Co-operation Zones ("ETCZs") in B&R related countries and regions. Some of the ETCZs were located in the member states of ASEAN where Hong Kong businesses were familiar with, hence an ideal entry point for Hong Kong enterprises and professionals to participate in B&RI. The Administration would seek policy support of the relevant Central authorities so that Hong Kong enterprises setting up businesses in the five ETCZs in ASEAN member states, namely Cambodia, Indonesia (two ETCZs), Malaysia and Thailand would be provided with comparable incentives and facilitations (e.g. tax concessions) currently enjoyed by Mainland enterprises.

19. Members were concerned that SMEs generally found it difficult, if not impossible, to participate in B&R investment projects which related mainly to infrastructure development. They wondered whether Mainland enterprises would rely on Hong Kong's financial and legal services when taking forward infrastructure projects under B&RI.

20. The Administration responded that it was aware that not many Hong Kong-based companies had participated in infrastructure projects relating to B&R. However, there was room for the professional services sectors of Hong Kong to benefit from those infrastructure projects. The Administration had been promoting partnership and collaboration among Mainland enterprises and Hong Kong's professional services sectors to facilitate Mainland enterprises in identifying partners in various professional fields for taking forward B&R projects. In view of the fact that many Mainland enterprises taking part in infrastructure projects under B&RI had established RHQs in Hong Kong, the Administration had organized business matching meetings and invited representatives from subsidiaries of state-owned enterprises in Hong Kong, Chinese enterprises as well as the local professional services sectors to attend.

21. The Administration added that HKTDC's B&R Portal had launched an "Infrastructure Tool Kit" to provide online practical guides for overseas project owners, investors and participants. It listed out the corresponding Hong Kong professional services providers and relevant success stories, with a view to facilitating business matching of overseas project owners and investors with professional services providers in Hong Kong at various stages. Currently, there were some 630 active projects on the Portal, which attracted over 15-million viewers with around 84% being Mainland/overseas counterparts.

22. While recognizing that B&RI would certainly bring long term benefits to Hong Kong, members were concerned that some of the industries in Hong Kong (e.g. aviation industry) might face greater competition from the neighbouring cities because of the economic co-operation among B&R countries under B&RI. They urged the Administration to adopt a proactive and target-oriented approach in driving Hong Kong's economic development and offer incentives and tailored assistances to economically and strategically important investments, similar to the promotion strategy adopted by the Mainland.

Professional Services Advancement Support Scheme

23. To encourage the professional services sectors of Hong Kong to step up promotion of Hong Kong's competitive edges and professional services to the Mainland cities of the Greater Bay Area and overseas markets after the pandemic has stabilized, a new programme named the Professionals Participation Subsidy Programme ("PSP") under the Professional Services Advancement Support Scheme ("PASS") has been announced in the 2020 Policy Address to subsidize the participation of Hong Kong's major professional bodies in relevant activities organized by the Government, HKTDC and ETOs.[1]

24. Members welcomed the introduction of PSP, but queried about the reasons for the limited coverage of the five activities which had been given in-principle approval under PSP as far, which mainly targeted on the building and construction-related services, accounting-related services and legal services. Other professional services sectors such as health-related services, veterinary services, waste management and environmental consultancy services, and technical testing and analysis services were not

[1] Following the announcement in the 2016 Policy Address and funding approval from the Legislative Council in July 2016, the $200 million PASS was set up to support Hong Kong's professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings.

covered. They urged the Administration to liaise with the professional bodies concerned and work out relevant activities for those sectors.

25. The Administration advised that different from the approach of inviting proposals for projects under the PASS Main Programme, the Administration, HKTDC and ETOs would take a proactive role in working out the details of the activities under the new PSP. At present, over 20 other PSP activities covering more professional services sectors were under preliminary planning, but the details of which could only be worked out after the pandemic situation had stabilized and overseas and cross-boundary travel been resumed. The new approach of HKTDC and ETOs taking a more proactive role in organizing PSP activities would help to streamline application procedures under PASS.

26. Given the importance of the financial services sector to Hong Kong as a global financial centre, members enquired why the financial services sector (including the wealth management services subsector) was not included in the list of eligible professional services sectors under PASS.

27. The Administration advised that the list of eligible professional services sectors was drawn up with reference to the classification of the World Trade Organization ("WTO"), as well as that of HKTDC taking into account the local circumstances. Although the financial services sector was not included in the list, many professionals from eligible professional services sectors (e.g. legal and accounting services) were practitioners of the financial services sector, and projects relating to the financial services sector might still be approved if the majority of the target beneficiaries were from the eligible professional services sectors. Members were of the view that the unique financial services sector should be included as an individual sector in the list of eligible professional services sectors under PASS.

28. Members also urged the Administration to step up effort on promotion of PASS (including PSP) through different channels and conduct more face-to-face meetings with SMEs and chambers of commerce in order to maximize the benefits to the professional services sectors.

Innovation and Technology

29. The development of innovation and technology ("I&T") has always been one of the key areas of concern of the Panel. During the session, the Panel discussed with the Administration the policies and measures related to I&T development and re-industrialization in Hong Kong and gave views on: (a) the development of the Hong Kong-Shenzhen Innovation and

Technology Park ("the Park") in the Lok Ma Chau Loop ("the Loop"), the Hong Kong Science Park ("HKSP") and Industrial Estates ("IEs"); (b) the various funding schemes under the Innovation and Technology Fund ("ITF"); (c) the re-industrialization policy in Hong Kong; and (d) the operation of the Research and Development ("R&D") Centres. Members also supported the Administration's funding proposal to implement the Global STEM Professional Scheme announced in the 2020 Policy Address to subsidize international renowned I&T scholars and their research teams to work in Hong Kong.

Development of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop

30. Whilst expressing support for the funding proposal for the development of the Park in the Loop at the regular meeting held in November 2020, members urged the Administration to expedite the development of the Park lest international I&T investments and talent would be lost to Shenzhen which had made good progress in developing the Shenzhen Innovation and Technology Zone ("SZ I&T Zone").

31. The Administration advised that development of the Park was the top priority of the Administration's strategy in providing technological research infrastructure. The HKSAR Government had been in close collaboration with the Shenzhen authorities to take forward the development of the Park. In addition to becoming the largest I&T platform in Hong Kong, the Park, together with the adjacent SZ I&T Zone, would form a synergistic Co-operation Zone which would leverage the complementary advantages of both Hong Kong and Shenzhen. The HKSAR Government and Shenzhen Municipal People's Government were also exploring the feasibility of allowing Hong Kong Science and Technology Parks Corporation ("HKSTPC") to lease and manage some of the areas in the SZ I&T Zone, thereby enabling suitable and interested institutions and enterprises to commence collaborative research or to tap into the Mainland market as soon as possible prior to the completion of the first batch of buildings in the Park.

Latest development of the Hong Kong Science Park and industrial estates

32. Noting that a 56-hectare site near Liantang/Heung Yuen Wai Boundary Control Point ("BCP") had been reserved for I&T development, members were concerned about the reasons for spending over $2 billion on the expansion of HKSP but not immediately kicking start the development of that spacious site to meet the need of the I&T industry.

33. The Administration advised that according to a survey conducted by HKSTPC in 2020, an aggregate laboratory space of nearly 27 000 sq m was required. HKSTPC considered it necessary to kick-start Phase 2 of the Science Park Expansion Programme in HKSP so that more R&D space could be provided to continuously support the development of technology enterprises in the coming few years. The Administration added that the 56-hectare site near Liantang/Heung Yuen Wai BCP was reserved for the development of IEs in the long term.

34. Noting that the two InnoHK research clusters at HKSP had the mission of converging top-notch researchers from all over the world to conduct world-class and impactful collaborative researches in Hong Kong, members sought details of the technologies developed in the centres of the InnoHK research clusters which had commenced operation in the first quarter of 2021.

35. The Administration advised that the *InnoHK* initiative included *"Health@InnoHK"* and *"AIR@InnoHK"* with the centres established in the *"Health@InnoHK"* engaging in R&D related to drug discovery, personalized medicine, chemical biology, bioinformatics and vaccine development, whereas those in the *"AIR@InnoHK"* carrying out R&D projects related to big data analytics, machine learning, medical robotics and mobile robots, etc.

36. Members sought details of HKSTPC's latest plans to grant vacant sites in IEs to private enterprises. The Administration advised that HKSTPC had formulated a set of guiding principles for assessment of the technical proposals submitted by tenderers for leasing sites in IEs. Under the guiding principles, HKSTPC would take into consideration the following eight aspects: (a) output as to economic direct value-added; (b) investment in capital expenditure for equipment together with fitting out or building construction; (c) provision of high-skilled employment; (d) technology content in the respective products or services; (e) advanced process applied in the manufacturing products or delivery of services; (f) R&D elements; (g) supply for local consumption; and (h) sustainability of business. HKSTPC was inviting tenders for leasing a land lot in the Tseung Kwan O ("TKO") IE. TKO IE, due to its proximity to a submarine cable landing station, was ideal for the information and communication technology industry and advanced manufacturing activities which relied on data-driven technologies. Depending on the feedbacks of the said tendering exercise, HKSTPC might invite tenders for leasing land lots in the Yuen Long IE (about seven to eight lots were available therein) in the second half of 2021. There was no vacant site in the Tai Po IE.

Attracting and nurturing technology talent

37. Members were concerned about the measures taken by the Administration to attract I&T talents from all over the world to Hong Kong, in particular after the social unrest in the second half of 2019. The Administration responded that to expand the local I&T talent pool, the Administration had adopted a three-pronged approach of nurturing, retaining and attracting talents through a variety of funding schemes and enhancing the talent admission regime. The Research Talent Hub had not only successfully attracted local graduates in Science, Technology, Engineering and Mathematics ("STEM")-related disciplines to pursue a career in the R&D sector, but also provided incentives for technology companies to employ STEM graduates from well-recognized non-local institutions to conduct R&D work in Hong Kong. Besides, the Chief Executive announced in the 2020 Policy Address that the Administration would launch the Global STEM Professorship Scheme to support local universities in recruiting internationally renowned I&T scholars and their teams to undertake teaching and research work in Hong Kong. Looking ahead, HKSTPC would actively explore ways to attract and nurture talents in the fields of technology business management and advanced manufacturing, including co-organizing training programmes with the Vocational Training Council.

38. The Administration further advised that enhancement measures of the Technology Talent Admission Scheme ("TechTAS") were rolled out in January 2020. Before the enhancement, TechTAS only covered tenants and incubatees of HKSTPC and Hong Kong Cyberport Management Company Limited which conducted R&D activities in seven technology areas (i.e. artificial intelligence ("AI"), biotechnology, cyber security, data analytics, financial technologies, material science and robotics). The enhanced TechTAS was extended to cover six more technology areas (i.e. 5G communications, digital entertainment, green technology, integrated circuit design, the Internet of Things and microelectronics), bringing the total to 13; and to cover all companies conducting R&D activities in such 13 technology areas in Hong Kong. The enhancements had allowed more companies to benefit from TechTAS, thus expediting the admission of technology talent from different parts of the world to undertake R&D work in Hong Kong, encouraging cross-fertilization of local and non-local talent and contributing to Hong Kong's I&T development.

Implementation progress of the Innovation and Technology Fund

39. At the regular meeting held in April 2021, the Panel was briefed on the progress and enhancement measures of various funding schemes under ITF. Members in general supported the injection of $9.5 billion into ITF in 2021-2022 and 2022-2023 to continue its operation,[2] but had the following suggestions: (a) to set a higher target on the ratio of gross expenditure on R&D ("GERD") to gross domestic product ("GDP"); and (b) to encourage private investment in I&T to ensure sustainability.

40. The Administration advised that it would work towards achieving 1.5% (from 0.92% in 2019) on the ratio of GERD to GDP by end of the term of the current Government and continue to encourage private investment in I&T. To stimulate private investments in I&T, the Administration had, among other initiatives, provided private companies cash rebates equivalent to 40% of their eligible contribution to R&D projects under the R&D Cash Rebate Scheme, together with enhanced tax deduction for their spending on qualifying R&D activities.

41. Members suggested that local universities should enhance their capabilities of technology transfer by engaging investors and I&T practitioners in their Technology Transfer Offices ("TTOs").

42. The Administration advised that TTOs of the seven designated universities had been provided with an annual funding of up to $8 million each through ITF to enhance their work on technology transfer.[3] Apart from funding TTOs, the Administration also provided through the Technology Start-up Support Scheme for Universities six designated universities an annual funding of up to $8 million each to support their teams in starting technology businesses and commercializing their R&D results.[4]

43. Noting that the projects funded by the Innovation and Technology Support Programme ("ITSP") had generated over 300 intellectual property

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[2] The Finance Committee ("FC") approved the funding proposal at the meeting on 4 June 2021.

[3] The seven universities are the University of Hong Kong, the Chinese University of Hong Kong, City University of Hong Kong, the Hong Kong University of Science and Technology, the Hong Kong Baptist University, the Hong Kong Education University and the Hong Kong Polytechnic University.

[4] The six universities are the University of Hong Kong, the Chinese University of Hong Kong, City University of Hong Kong, the Hong Kong University of Science and Technology, the Hong Kong Baptist University and the Hong Kong Polytechnic University.

("IP") rights between April 2017 and February 2021, members sought details of the ratio of the funded projects to the IP rights so generated which had successfully been commercialized, and urged the Administration to enhance commercialization of their research outcomes.

44. The Administration advised that ITSP projects were mainly platform projects that belonged to midstream R&D and were further away from the commercialization phase. Nevertheless, about 33% of the completed and ongoing ITSP projects had been commercialized, generating cumulative commercialization income of more than $3.74 billion over the years. The Administration added that 53% of the completed and ongoing projects under the Enterprise Support Scheme ("ESS"), which provided funding for private companies to carry out in-house more downstream applied R&D activities, had been commercialized. Despite different commercialization rates, ITSP and ESS projects were both important because a balanced mix of midstream and downstream R&D activities was crucial in facilitating Hong Kong's I&T development.

Re-industrialization policy

45. The Administration has been actively promoting re-industrialization and developing advanced manufacturing based on new technologies and smart production in order to enhance the competitiveness of the manufacturing industry in Hong Kong through innovative technologies. In the session, members gave views on the re-industrialization policy and called on the Administration to focus on promoting the development of the manufacturing industries which had competitive advantages in Hong Kong, such as the food processing industry, by providing adequate financial support.

46. The Administration advised that the Re-industrialization Funding Scheme, launched in July 2020, subsidized local manufacturers on a matching basis to set up new smart production lines in Hong Kong, assisting them to move towards high value-added production and gradually upgrade to "Industry 4.0" ("i4.0"). As at end of July 2021, among the 16 applications supported by the Vetting Committee, half of them were related to the food manufacturing/processing industries.

47. The Administration added that healthcare technology was another research area which enjoyed clear advantages in Hong Kong. In this connection, the Administration was pressing ahead with the development of the *"Health@InnoHK"* which focused on research in healthcare technologies.

48. Referring to the INC Invention Centre ("the Hatch") set up by the Hong Kong Productivity Council ("HKPC") in collaboration with the Fraunhofer Institute for Production Technology of Germany to introduce i4.0 related technologies to Hong Kong enterprises, members sought details on the progress of the adoption of the technologies.

49. The Administration advised that HKPC was determined to assist Hong Kong enterprises to move towards high value-added production and gradually upgrade to i4.0. The Hatch supported Hong Kong enterprises in adopting innovative industrial technologies and promoting the development of smart industries. HKPC also implemented the "i4.0 Upgrade and Recognition Programme", which facilitated enterprises to build intelligent production lines. More than 20 industries and 50 enterprises had applied intelligent manufacturing technology for production. In addition, HKPC also operated "Inno Space" and "Digital@HKPC (Digital Transformation)" to promote re-industrialization and assist the industry in moving towards smart production.

Research and Development Centres

50. With the five R&D Centres established by the Government working on applied R&D with the industry and fostering the commercialization of R&D outcomes,[5] members called on the Administration to conduct a comprehensive review of the operation, role and positioning of the R&D Centres to ensure proper use of public funds and avoid direct competition with private R&D institutions.

51. The Administration advised that the key mission of the R&D Centres was to undertake applied R&D with the aim of transferring R&D outcomes to the industry for commercialization. The Administration attached great importance to the performance of the R&D Centres in commercialization, which had seen steady improvements over the years. The R&D Centres also served a public mission to support government departments and public organizations. For example, when the COVID-19 pandemic started in early 2020, the Administration commissioned one of the R&D Centres to coordinate the production of reusable face masks to address the acute shortage.

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5 The Five R&D Centres are: the Hong Kong Applied Science and Technology Research Institute, Nano and Advanced Materials Institute, Logistics and Supply Chain Multitech R&D Centre, Hong Kong Research Institute of Textiles and Apparel, and Automotive Platforms and Application Systems R&D Centre.

52. Noting that four R&D Centres, namely the Nano and Advanced Materials Institute, Logistics and Supply Chain MultiTech R&D Centre, Hong Kong Research Institute of Textiles and Apparel, and Automotive Platforms and Application Systems R&D Centre, were required to apply for funding under ITF for their operation, while the operating expenditure of the Hong Kong Applied Science and Technology Research Institute ("ASTRI") was met separately from Government's annual recurrent subvention, members suggested that for better presentation of the income and expenditure figures, the Administration should group together all five R&D Centres in its future funding proposals for the continued operation of the R&D Centres; or even subsume ASTRI under ITF to facilitate monitoring of its performance.

53. Members also suggested that the Administration should raise the target level of industry income to further enhance the R&D Centres' performance and provide more information on the indirect benefits brought by the commercialization of the R&D outcomes in future reports to the Panel.

Biomedical technologies

54. Noting that some biotechnology companies from Germany had successfully developed proprietary Chinese medicines which were popularly sold in Hong Kong, and that the Administration had been promoting the development of Hong Kong into a Chinese medicine port for more than two decades, members sought details of the plans of the Administration and HKSTPC in this respect.

55. The Administration responded that biomedical technology was one of the areas which Hong Kong had competitive edge over its regional competitors. HKSTPC provided biobank and various biomedical communal laboratories to support the growth of small biomedical technology companies. Currently, there were over 160 biomedical technology companies operating in HKSP (up from about 30 in 2016) and over 20 incubatees were being groomed under HKSTPC's Incu-Bio Programme.

Arts technologies

56. Members welcomed the Administration's latest initiative to develop and promote arts technologies ("Arts Tech") and sought clarification on HKSTPC's role in the development of Arts Tech, its plan in facilitating cross-sector collaboration, and whether the management team of HKSTPC had the relevant expertise.

57. The Administration responded that the Leisure and Cultural Services Department and relevant government departments had in February 2021 discussed with I&T start-ups in HKSP and mobile network operators providing 5G services the development of Arts Tech in Hong Kong. Noting that a number of start-ups in HKSP were specialized in virtual reality, augmented reality and other relevant technologies, the Administration would leverage HKSP's network to connect technology companies with the arts and cultural sector. The Innovation and Technology Bureau would continue to provide technical support to the Home Affairs Bureau which oversaw the policies on the whole spectrum of arts and culture and spearheaded the development and promotion of Arts Tech.

Support to small and medium enterprises

58. During the session, the Panel gave views on a range of enhancement measures for supporting SMEs which helped SMEs ride out the storm amidst the current economic hardship and recover as soon as the pandemic subsides. Members in general supported the enhancement measures and their related financial proposals.

SME Financing Guarantee Scheme

59. The Government had been helping businesses obtain commercial loans by providing loan guarantees under the SME Financing Guarantee Scheme ("SFGS") since 2012.[6] To assist enterprises hard hit by the COVID-19 pandemic in coping with cash flow problems, the Government provided a further commitment of $50 billion and launched in April 2020 the Special 100% Guarantee Product under SFGS to provide low-interest concessionary loans to SMEs. At the regular meetings in March[7] and

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[6] In May 2012, the Government launched the SFGS with a total commitment of $100 billion to provide 80% guarantee on commercial loans (80% Guarantee Product). In December 2019, the Government provided a further commitment of $33 billion to launch the 90% Guarantee Product under the SFGS, aiming to help smaller-sized enterprises and businesses with relatively less operating experience and professionals seeking to set up their own practices.

[7] The application period of the Special 100% Guarantee Product was extended to 31 December 2021, with the maximum loan amount per enterprise increased from the total amount of employee wages and rents for 12 months to that for 18 months, and the loan amount ceiling increased from $5 million to $6 million. In addition, the maximum repayment period was extended from five years to eight years; and the maximum duration of principal moratorium was extended from 12 months to 18 months.

September[8] 2021, the Panel was briefed on the enhancements of the Special 100% Guarantee Product to meet the strong need among SMEs for SFGS to help address their liquidity problem during the economic downturn.

60. While expressing support for the enhancements to support SMEs, members relayed the concern of some SMEs about their difficulties in applying for loans under the Special 100% Guarantee Product and urged the Administration to review and streamline the relevant loan approving procedures.

61. The Administration advised that under the Special 100% Guarantee Product, the Government acted as guarantor for 100% of the loans provided by participating lending institutions ("PLIs") which would bear close to zero default risk. Since the introduction of the Special 100% Guarantee Product, the performance pledge given by HKMC Insurance Limited that loans be approved within three working days upon receipt of an application from a PLI could be met provided that the requisite supporting documents were provided by the applicants. In practice, some 60% of the loan applications were approved on the same day of receipt. Applicants were suggested to compare the service of the 21 PLIs under SFGS and choose the one which best suited their requirements.

62. Some members doubted that many SMEs might have reached the loan amount ceiling under the Special 100% Guarantee Product, thus defeating the purpose of further extending its application period. The Administration advised that the maximum loan amount of $6 million per enterprise had not been exhausted in most cases by SMEs. The proposed extension of the application period would allow a window of opportunity for SMEs to utilize their unused credit line.

Support measures provided by Hong Kong Trade Development Council

63. With a rising trend for SMEs to develop online business, members suggested that more guidance should be given to SMEs in using online platforms to conduct business and organize seminars. Additional support should be provided to SMEs in conducting local market promotion activities.

64. The Administration advised that HKTDC had been helping SMEs conduct business on digital platforms. For example, HKTDC launched the

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8 The application period of the Special 100% Guarantee Product was extended to 30 June 2022.

Digital Academy and E-tailing Academy to provide free online tutorials and market information to SMEs in conducting e-business and online promotion. HKTDC also ran the Transformation Sandbox, a SME support programme which aimed at helping SMEs enhance their business competitiveness and achieve upgrading and transformation goals in the areas of branding, e-commerce, manufacturing and supply chain as well as access to new markets.

65. The Administration added that HKTDC would use the additional subvention of $301 million to be allocated from 2021-2022 to 2023-2024 to develop virtual platforms and enhance its capability to organize hybrid events and provide a seamless event experience for users (e.g. enhancing instant interaction functions and using AI to conduct business matching). At the same time, HKTDC would upgrade its online service systems to facilitate users and provide personalized market news and analysis.

Dedicated Fund on Branding, Upgrading and Domestic Sales

66. Members welcomed the injection of $1.5 billion into the BUD Fund to increase the cumulative funding ceiling per enterprise from $4 million to $6 million, and extend its geographical coverage from all economies with which Hong Kong had signed FTAs to also include all economies with which Hong Kong had signed Investment Promotion and Protection Agreements.[9]

67. In response to members' enquiry on whether SMEs could apply for funding under the BUD Fund to develop online marketing platforms, the Administration advised that the funding scope under the BUD Fund was wide-ranging, covering branding, upgrading and promoting sales. The use of online platforms and new media for promoting sales, hiring of consultants for developing new markets and engaging key opinion leaders to promote products were all fundable under the BUD Fund.

SME Export Marketing Fund

68. Members welcomed the expansion of the funding scope of the SME Export Marketing Fund ("EMF") from exhibitions specifically aiming at markets outside Hong Kong to large-scale exhibitions targeting the local market as well as virtual exhibitions, for a period of two years with effect from 30 April 2021.

69. As regards members' enquiry on whether EMF would subsidize local

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9 FC approved the funding proposal at the meeting on 23 April 2021.

market promotion activities organized by the tourism sector, the Administration advised that the enhanced EMF would support SMEs in conducting overseas market promotion activities and local exhibitions through both online and offline avenues, and would cover promotion activities of the tourism sector. A dedicated service team entitled "SME ReachOut" had also commenced operation in January 2020 and would reach out to SMEs and trade associations in different sectors including the tourism sector, to help them identify suitable funding schemes.

Culture and creative industries

70. Members urged the Administration to provide more targeted support to the culture and creative industries which were hard-hit by the COVID-19 pandemic, in addition to the across-the-board support measures for all SMEs.

71. The Administration advised that in helping SMEs, the Administration had adopted a two-pronged strategy by introducing not only across-the-board support measures for all SMEs, but also relief measures to the various affected industries by direct subsidy through the Anti-epidemic Fund. The cultural and creative industries would benefit from the above support measures for SMEs. The Administration added that it had supported the film industry through Film Development Fund which received in 2019 an injection of $1 billion; while another $1 billion would be injected into the CreateSmart Initiative in 2021-2022 in support of the development of the creative industries.

<u>Other issues</u>

Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035

72. At the regular meeting held in June 2021, the Panel received a briefing by the Administration on the positioning of HKSAR in the Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035 ("National 14th Five-Year Plan") which was endorsed by the National People's Congress on 11 March 2021.

73. To seize the opportunities of the National 14th Five-Year Plan for the development of Hong Kong, members called on the Administration to:

(a) implement measures to support the "Fintech 2025" Strategy launched by the Hong Kong Monetary Authority to facilitate the development and use of central bank digital currencies, namely e-HKD and e-CNY, in Hong Kong and to develop Hong Kong as a green and sustainable financing hub;

(b) discuss with the airport authorities of Shenzhen, Guangzhou, Zhuhai and Macao to achieve greater synergy of the airports concerned, and take measures to nurture aviation management talents to support Hong Kong in developing into an international aviation hub;

(c) adopt a forward-looking approach and actively participate in the development for the inter-city rail links and expedite the development of transportation infrastructures in Hong Kong, so as to grasp the development opportunities in the Greater Bay Area;

(d) forge more free trade agreements with different jurisdictions, and strategic trade partnerships with cities of the Greater Bay Area in enhancing Hong Kong's status as an international trade centre;

(e) promote I&T development in Hong Kong to enhance its status as an international I&T hub, by developing R&D infrastructures and nurturing I&T talents;

(f) take new initiatives and put additional resources to support Hong Kong in developing into a hub for arts and cultural exchanges; and

(g) strive for more facilitation measures in different aspects of life for Hong Kong people studying, working or living in the Mainland.

Original grant patent system

74. Members welcomed the launch of the original grant patent ("OGP") system in December 2019 and were pleased to note that a total of 312 OGP applications were received by the Patents Registry in the first 15 months of implementation of the OGP system which had exceeded the initial projection of about 100 to 200 applications for the first year. They asked whether the OGP applicants would in parallel file corresponding patent applications for the same inventions in other jurisdictions.

75. The Administration advised that patent protection was territorial, and patents were granted by patent offices of different jurisdictions in accordance with their own laws and regulations. The OGP system had not only facilitated applicants to file applications directly in Hong Kong for obtaining standard patent protection, but also helped them secure the first or earliest filing dates for the applications so that the applicants could enjoy a right of priority when they filed a corresponding patent application for the same invention in any Paris Convention country or WTO member country or territory within 12 months after the date of filing of the OGP application.

76. In response to members' enquiry on how the implementation of OGP system could help promote the development of re-industrialization in Hong Kong, the Administration advised that the patent system enabled technology start-ups to seek protection of their inventions by preventing others from exploiting their patented inventions. It also entitled the patent owners to sell, license or otherwise commercialize their IP rights. In view of the rapid I&T development in Hong Kong in recent years, it was expected that the demand for intermediary services for IP protection, management and trading activities would continue to increase.

Testing and certification industry

77. Given the good reputation of Hong Kong's testing and certification ("T&C") industry and the brand of "Tested in Hong Kong, Certified in Hong Kong", members urged the Administration to help the industry realize its growth potential by actively participating in the national development strategy of domestic and international dual circulation.

78. The Administration advised that professionalism, integrity, being responsive to market needs, having a robust accreditation system and good IP protection framework were the distinct advantages enjoyed by the T&C industry in Hong Kong. As local T&C organizations were familiar with the needs of overseas markets and acclaimed by buyers across the globe, it was believed that local T&C organizations could go beyond Hong Kong. The Administration would continue to facilitate the development of Hong Kong's T&C industry by reinforcing the branding of "Tested in Hong Kong, Certified in Hong Kong".

79. The Administration added that it had rolled out in January 2021 a four-month digital promotion scheme to publicize the strengths of Hong Kong's T&C industry by placing advertisements on a number of popular digital platforms in the Mainland, which was the first time for the Administration to promote Hong Kong's T&C services in the Mainland

through digital channels. The scheme targeted at manufacturers and traders of products like food and cosmetics, etc. in the Mainland cities of the Greater Bay Area.

80. To elevate Hong Kong's T&C industry to an international level, members were of the views that: (a) Hong Kong should take part in the development work of international standards; and (b) the Administration should liaise with overseas Governments and authorities to foster mutual recognition on T&C standards developed locally. Members also called on the Administration to closely monitor the operations of all Hong Kong-based T&C organizations in order to ensure that their services met the required standards, thereby protecting the reputation and sustaining the long-term healthy development of Hong Kong's T&C industry.

Convention and exhibition industry

81. While noting that the Administration would take forward two plans to expand major convention and exhibition ("C&E") facilities in Hong Kong, i.e. the redevelopment of the three government towers in Wan Chai North and Kong Wan Fire Station into C&E facilities, and the construction of phase two of AsiaWorld-Expo on the airport island, members were concerned that Hong Kong had lagged behind its neighbouring countries/cities, such as Singapore and Shenzhen, in the provision of C&E facilities.

82. Regarding the implementation of the $1.07 billion Convention and Exhibition Industry Subsidy Scheme ("the Scheme") to reinvigorate the reputation of Hong Kong as a premier international C&E hub, members called on the Administration to: (a) further extend the validity of the Scheme from 30 June 2022 to end of 2022; (b) increase the subsidy level of the participation fees of exhibitors of exhibitions organized by HKTDC; and (c) expand the funding scope of the Scheme to help the C&E trade cope with cash flow problems.

<u>Subcommittee on Issues Relating to the Stimulation of Hong Kong's Economy</u>

83. The Subcommittee on Issues Relating to the Stimulation of Hong Kong's Economy ("the Subcommittee") established under the Panel commenced operation in December 2020 to review and study policies relating to the stimulation of Hong Kong's economy and make timely recommendations. The Subcommittee held five meetings with the Administration. The Panel noted the Subcommittee's report which summarized the deliberations and recommendations of the Subcommittee.

Proposed Member's Bill to amend the Prevention and Control of Disease Ordinance (Cap. 599)

84. The Panel discussed at the regular meeting in November 2020 the Prevention and Control of Disease (Amendment) Bill 2020 ("the Bill") proposed by Mr Tommy CHEUNG which was intended to be introduced as a Member's Bill into LegCo. The Bill sought to empower the Chief Executive in Council to make regulations to provide temporary economic relief measures to persons who had suffered hardship and loss due to the application of regulations made pursuant to the Prevention and Control of Disease Ordinance (Cap. 599), in particular, temporary relief from actions for inability to perform contracts such as tenancy agreements. While the Administration indicated opposition to the Bill in view of the tremendous implications on public expenditure, operation of the Government and government policies, members generally considered that the Administration should continue to support enterprises to overcome difficulties brought about by the pandemic.

Meetings held and visits conducted

85. During the period between October 2020 and October 2021, the Panel held a total of 12 meetings. The Panel also conducted visits to HKSP on 23 February 2021 and HKPC on 11 May 2021 respectively to understand their work and latest development.

Council Business Division 1
Legislative Council Secretariat
12 October 2021

Appendix I

Panel on Commerce and Industry

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to commerce, industry, business and services promotion, innovation and technology, intellectual property protection and inward investment promotion.

2. To provide a forum for the exchange and dissemination of views on the above policy matters.

3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.

4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.

5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Appendix II

Panel on Commerce and Industry

Membership list for 2020 - 2021 session*

Chairman	Hon CHUNG Kwok-pan
Deputy Chairman	Hon Jimmy NG Wing-ka, BBS, JP
Members	Hon Jeffrey LAM Kin-fun, GBS, JP Hon WONG Ting-kwong, GBS, JP Hon YIU Si-wing, SBS Hon MA Fung-kwok, GBS, JP Hon Christopher CHEUNG Wah-fung, SBS, JP Hon Martin LIAO Cheung-kong, GBS, JP Dr Hon CHIANG Lai-wan, SBS, JP Ir Dr Hon LO Wai-kwok, GBS, MH, JP Dr Hon Junius HO Kwan-yiu, JP Hon SHIU Ka-fai, JP Hon CHAN Chun-ying, JP Hon LAU Kwok-fan, MH, JP (Total：14 members)
Clerk	Mr Boris LAM
Legal Adviser	Ms Doreen WAN

* Changes in membership are shown in **Annex**.

Annex to Appendix II

Panel on Commerce and Industry

Changes in membership

Member	**Relevant date**
Hon HUI Chi-fung	Up to 18 October 2020
Hon IP Kin-yuen	Up to 20 October 2020
Hon SHIU Ka-chun	Up to 20 October 2020
Dr Hon Fernando CHEUNG Chiu-hung	Up to 21 October 2020
Prof Hon Joseph LEE Kok-long, SBS, JP	Up to 10 November 2020
Hon Charles Peter MOK, JP	Up to 10 November 2020
Hon Jeremy TAM Man-ho	Up to 11 November 2020
Hon Claudia MO	Up to 12 November 2020
Dr Hon Helena WONG Pik-wan	Up to 12 November 2020
Hon James TO Kun-sun	Up to 12 November 2020
Hon WU Chi-wai, MH	Up to 12 November 2020
Hon Andrew WAN Siu-kin	Up to 12 November 2020
Hon LAM Cheuk-ting	Up to 12 November 2020
Hon KWONG Chun-yu	Up to 12 November 2020
Hon Frankie YICK Chi-ming, SBS, JP	Up to 19 November 2020
Hon CHAN Kin-por, GBS, JP	Up to 1 December 2020
Hon Paul TSE Wai-chun, JP	Up to 1 December 2020
Hon Kenneth LAU Ip-keung, BBS, MH, JP	Up to 1 December 2020
Hon Abraham SHEK Lai-him, GBS, JP	Up to 2 December 2020
Hon Starry LEE Wai-king, SBS, JP	Up to 2 December 2020
Hon POON Siu-ping, BBS, MH	Up to 2 December 2020
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP	Up to 3 December 2020
Hon Elizabeth QUAT, BBS, JP	Up to 3 December 2020
Hon CHEUNG Kwok-kwan, JP	Up to 3 December 2020
Hon CHAN Hak-kan, SBS, JP	Up to 13 January 2021

For **changes in LegCo Membership**, please refer to the link below:
(https://www.legco.gov.hk/general/english/members/yr16-20/notes.htm)