

INNOVATION AND TECHNOLOGY FUND

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Memorandum Note

The Innovation and Technology Fund was established on 30 June 1999 by Resolution of the Legislative Council to finance projects to help promote innovation and technology upgrading in manufacturing and service industries. These efforts will contribute to increased productivity and enhanced competitiveness, and hence will be conducive to the long-term economic development of Hong Kong.

2 The Resolution provides, inter alia, that—

- (a) the Fund be administered by the Financial Secretary who may delegate his power of administration to other public officers;
- (b) there be credited to the Fund—
 - (i) such appropriations from the general revenue as may be approved by the Legislative Council for the purposes of the Fund;
 - (ii) all income received by way of interest, dividend or distribution in whatever form from—
 - (1) any loan, advance, investment or payment in whatever form made from the Fund in financing approved projects; and
 - (2) any investment made from the Fund;
 - (iii) all sums received by way of repayment of any loan or advance made from the Fund;
 - (iv) the proceeds of the sale of any investment made from the Fund; and
 - (v) such donations and other moneys as may be received for the purposes of the Fund;
- (c) the Financial Secretary may apply moneys from the Fund for the purpose of—
 - (i) financing projects that contribute to innovation and technology upgrading in the manufacturing and service industries; and
 - (ii) financing projects that contribute to the upgrading and development of the manufacturing and service industries,

in accordance with such terms and conditions as may be specified by the Finance Committee of the Legislative Council;

- (d) the Director of Accounting Services shall, under the authority of a funds warrant issued by the Financial Secretary, pay from the Fund such sums as may be required to meet expenditures from the Fund; and
- (e) the Financial Secretary in his discretion may authorise the investment in such manner as he may determine of any moneys held in the Fund at any time.

3 The Finance Committee approved on 9 July 1999 an appropriation of \$5 billion to the Fund. Since then, the following injections to the Fund have been approved—

- (a) \$5 billion on 27 February 2015;
- (b) \$2 billion as endowment capital to generate investment income to finance projects under the Midstream Research Programme for Universities (MRP) on 10 June 2016;
- (c) \$2 billion for financing the Innovation and Technology Venture Fund (ITVF) on 12 July 2016;
- (d) \$10 billion on 13 July 2018; and
- (e) \$10 billion for providing financial support to establish research clusters in Hong Kong on 13 July 2018.

4 Payments from the Fund for 2019–20 and 2020–21 are estimated at \$2,542,872,000 and \$6,567,904,000 respectively.

5 Provision of \$3,628,449,000 under *Subhead 101 Innovation and Technology (block vote)* for 2020–21 is to meet payments for existing projects and new projects that may be approved in the course of the year. Of this provision, \$430,687,000 is earmarked for projects to be undertaken by the Hong Kong Applied Science and Technology Research Institute Company Limited. Projects each costing over \$30 million will be subject to approval by the Finance Committee and any expenditure arising therefrom will be offset by deleting an equivalent amount under *Subhead 101*.

6 Provision of \$52,888,780 under *Subhead 090 Midstream Research Programme for Universities (block vote)* for 2020–21 is to meet payments for MRP existing projects and new projects that may be approved in the course of the year.

7 For the subheads created in 2005–06 for projects under the Government's new funding approach for innovation and technology development, the subhead created in 2016–17 for financing the ITVF and the subhead created in 2018–19 for the research centres/laboratories for establishment of research clusters, the following provisions are to meet payments for them in 2020–21:

- (a) \$79,162,000 under *Subhead 104 the Nano and Advanced Materials Institute*;
- (b) \$39,496,000 under *Subhead 105 the Hong Kong Research Institute of Textiles and Apparel*;
- (c) \$26,200,000 under *Subhead 106 the Automotive Platforms and Application Systems Research and Development Centre (formerly known as the Automotive Parts and Accessory Systems Research and Development Centre)*;

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- (d) \$36,087,000 under *Subhead 107 the Logistics and Supply Chain MultiTech R&D Centre (formerly known as the Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies)*;
- (e) \$500 million under *Subhead 110 Innovation and Technology Venture Fund Corporation*; and
- (f) \$2,205,621,000 under *Subhead 111 Research centres/laboratories for establishment of research clusters*.

8 Receipts taking the form of investment income, net income from projects and refund of grants for 2019–20 and 2020–21 are estimated at \$789,339,000 and \$822,102,000 respectively.

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(Payments)

| Sub-head (Code) | Approved commitment | Actual expenditure to 31.3.2019 | Revised estimate 2019–20 | Estimate 2020–21 | | | | | |
|--|--|---------------------------------------|--------------------------------|---------------------|-------------------------------|---|-----------|-----------|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | | | | | |
| Head 111—Innovation and Technology | | | | | | | | | |
| 090 | Midstream Research Programme for Universities (block vote) | — | — | 34,102 | 52,889 | | | | |
| 101 | Innovation and Technology (block vote) | — | — | 1,732,169 | 3,628,449 | | | | |
| 104 | The Nano and Advanced Materials Institute... | 690,000 | 530,438 | 80,400 | 79,162 | | | | |
| 105 | The Hong Kong Research Institute of Textiles and Apparel | 344,500 | 265,404 | 39,600 | 39,496 | | | | |
| 106 | The Automotive Platforms and Application Systems Research and Development Centre | 299,700 | 193,493 | 20,847 | 26,200 | | | | |
| 107 | The Logistics and Supply Chain MultiTech R&D Centre..... | 362,400 | 282,213 | 44,100 | 36,087 | | | | |
| 110 | Innovation and Technology Venture Fund Corporation..... | 2,000,000 | 12,009 | 135,000 | 500,000 | | | | |
| 111 | Research Centres/Laboratories for Establishment of Research Clusters | 10,000,000 | — | 456,654 | 2,205,621 | | | | |
| | <i>Head 111: total</i> | 13,696,600 | 1,283,557 | 2,542,872 | 6,567,904 | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Total (Payments).....</td> <td style="text-align: center; border-top: 3px double black;">—</td> <td style="text-align: center; border-top: 3px double black;">1,283,557</td> <td style="text-align: center; border-top: 3px double black;">2,542,872</td> <td style="text-align: center; border-top: 3px double black;">6,567,904</td> </tr> </table> | | | | | Total (Payments) | — | 1,283,557 | 2,542,872 | 6,567,904 |
| Total (Payments) | — | 1,283,557 | 2,542,872 | 6,567,904 | | | | | |

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(Receipts)

| | Actual receipts 2018–19 | Revised estimate 2019–20 | Estimate 2020–21 |
|--|-------------------------------|--------------------------------|---------------------|
| | \$'000 | \$'000 | \$'000 |
| Investment income | 670,285 | 743,728 | 822,000 |
| Net income from projects | 1,220 [^] | 106 [^] | 102 |
| Refund of grants | 45,879 | 45,505 | — |
| Transfer from General Revenue | 20,000,000 [@] | — | — |
| Total (Receipts) | 20,717,384 | 789,339 | 822,102 |

[@] The Legislative Council's Finance Committee has approved the injection of \$20 billion into the Innovation and Technology Fund on 13 July 2018 (\$10 billion for supporting the continued operation of the existing funding schemes/support programmes and introducing various new initiatives, and \$10 billion for providing financial support to establish research clusters in Hong Kong). The actual transfer of \$20 billion in total into the Fund was effected in 2018–19.

[^] The Legislative Council's Finance Committee has approved the R&D centres to retain their commercialisation income for use in strategic activities on 13 July 2018. The estimated net income from projects for 2018–19 onwards is therefore expected to decrease.

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Movement of the Account

| | Actual | | | | Revised Estimate | Estimate |
|--|---------|---------|---------|---------|------------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Opening Balance | 987 | 42 | 7,991 | 6,796 | 25,939 | 24,185 |
| Revenue | 69 | 207 | 288 | 718 | 789 | 822 |
| Expenditure | 1,014 | 1,258 | 1,483 | 1,575 | 2,543 | 6,568 |
| Surplus/(Deficit) before Transfer from GRA | (945) | (1,051) | (1,195) | (857) | (1,754) | (5,746) |
| Transfer from GRA | — | 9,000 | — | 20,000 | — | — |
| Surplus/(Deficit) | (945) | 7,949 | (1,195) | 19,143 | (1,754) | (5,746) |
| Closing Balance | 42 | 7,991 | 6,796 | 25,939 | 24,185 | 18,439 |

Revenue Analysis

| | Actual | | | | Revised Estimate | Estimate |
|--------------------------|-----------|------------|------------|------------|------------------|------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Investment Income | 3* | 155 | 218 | 671 | 744 | 822 |
| Net Income from Projects | 12 | 5 | 7 | 1 | — | — |
| Refund of Grants | 54 | 47 | 63 | 46 | 45 | — |
| Total Revenue | 69 | 207 | 288 | 718 | 789 | 822 |

* This provision includes investment income from cash balances but excludes investment income placed with the Exchange Fund. The investment income placed with the Exchange Fund for 2015-16, which stood at \$39,558,000, along with the investment income on other parts of the fiscal reserves, has been set aside and retained within the Exchange Fund for the Housing Reserve.

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Expenditure Analysis

| | Actual | | | | Revised Estimate | Estimate |
|--------------------------|---------|---------|---------|---------|------------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Payments | 1,014 | 1,258 | 1,483 | 1,575 | 2,543 | 6,568 |
| Total Expenditure | 1,014 | 1,258 | 1,483 | 1,575 | 2,543 | 6,568 |

Estimated Outstanding Commitment of Innovation and Technology Fund

| | Outstanding Commitment# |
|---------------------|-------------------------|
| As at 31 March 2020 | \$m 11,636 |

For Subheads 104 to 107, 110 and 111 only.