

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;

- (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 of the Legislative Council approved on 9 July 1999 an appropriation of \$5 billion to the Fund.

4 Payments from the Fund for 2007–08 and 2008–09 are estimated at \$518,516,000 and \$879,022,000 respectively.

5 Provision of \$799,133,000 under *Subhead 101 Innovation and Technology (block vote)* for 2008–09 is to meet payments for existing projects and new projects that may be approved in the course of the year. Of this provision, \$230,704,000 is earmarked for projects to be undertaken by the Hong Kong Applied Science and Technology Research Institute Company Limited and its Research and Development Centre for Information and Communications Technologies. Projects each costing over \$15 million will be subject to approval by the Finance Committee of the Legislative Council and any expenditure arising therefrom will be offset by deleting an equivalent amount under *Subhead 101*.

6 Under the Government's new funding approach for innovation and technology development, six subheads were created in 2005–06 for six new projects. The following provisions are to meet payments for these projects in 2008–09:

- (a) \$14,404,000 under *Subhead 104 Establishment of Research and Development Centre for Nanotechnology and Advanced Materials*;
- (b) \$17,550,000 under *Subhead 105 Establishment of Research and Development Centre for Textile and Clothing*;
- (c) \$16,400,000 under *Subhead 106 Establishment of Research and Development Centre for Automotive Parts and Accessory Systems*;
- (d) \$7,728,000 under *Subhead 107 Establishment of Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies*;
- (e) \$6,748,000 under *Subhead 108 Establishment of an Incubation-cum-Training Centre to support Digital Entertainment Development by the Hong Kong Cyberport Management Company Limited*; and
- (f) \$17,059,000 under *Subhead 109 Development of technologies and facilities to design and build mechanical watch movements by the Chinese University of Hong Kong*.

7 Receipts taking the form of investment income, net income from projects and refund of grants for 2007–08 and 2008–09 are estimated at \$328,813,000 and \$377,982,000 respectively.

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(Payments)

Sub-head (Code)	Approved commitment	Actual expenditure to 31.3.2007	Revised estimate 2007–08	Estimate 2008–09	
	\$'000	\$'000	\$'000	\$'000	
Head 111—Innovation and Technology					
101	Innovation and Technology (block vote).....	—	—	433,725	799,133
104	Establishment of Research and Development Centre for Nanotechnology and Advanced Materials	61,400	11,730	12,835	14,404
105	Establishment of Research and Development Centre for Textile and Clothing	60,300	10,131	9,350	17,550
106	Establishment of Research and Development Centre for Automotive Parts and Accessory Systems	100,000	24,100	14,576	16,400
107	Establishment of Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies	52,200	12,001	20,251	7,728
108	Establishment of an Incubation-cum-Training Centre to support Digital Entertainment Development by the Hong Kong Cyberport Management Company Limited.....	30,800	15,724	8,304	6,748
109	Development of technologies and facilities to design and build mechanical watch movements by the Chinese University of Hong Kong.....	54,000	22,383	14,558	17,059
	Development of functional nanomaterials and technologies by the Hong Kong University of Science and Technology	56,911	51,994	4,917	—
	<i>Head 111: total</i>	415,611	148,063	518,516	879,022
Total (Payments)					
	—	148,063	518,516	879,022	

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(Receipts)

	Actual receipts 2006-07	Revised estimate 2007-08	Estimate 2008-09
	\$'000	\$'000	\$'000
Investment income	400,353	308,730	377,972
Net income from projects	2,882	120	10
Refund of grants	19,273	19,963	—
Total (Receipts)	<u>422,508</u>	<u>328,813</u>	<u>377,982</u>

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Movement of the Account

	Actual				Revised Estimate	Estimate
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	4,714	4,668	4,605	4,433	4,470	4,280
Revenue	425	317	182	423	329	378
Expenditure	471	369	365	386	519	879
Surplus/(Deficit)	(46)	(52)	(183)	37	(190)	(501)
Write-back of Provision for Loss in Investments with the Exchange Fund	—	(11)ç	11γ	—	—	—
Closing Balance	4,668	4,605	4,433	4,470	4,280	3,779

ç In 2004-05, the amount refers to provision for the diminution in the market value of investments with the Exchange Fund during the period from 1 January to 31 March 2005.

γ In 2005-06, the amount refers to the write-back of the provision made in 2004-05.

Revenue Analysis

	Actual				Revised Estimate	Estimate
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Investment Income	415	244	157	400	309	378
Net Income from Projects	—	21	—	3	—	—
Refund of Grants	10	52	25	20	20	—
Total Revenue	425	317	182	423	329	378

Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Payments	471	369	365	386	519	879
Total Expenditure	471	369	365	386	519	879