

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 2006–07 and 2007–08 are estimated at \$507,914,000 and \$900,608,000 respectively.

5 Provision of \$813,180,000 under *Subhead 101 Innovation and Technology (block vote)* for 2007–08 is to meet payments for existing projects and new projects that may be approved in the course of the year. Of this provision, \$237,074,000 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 2007–08:

- (a) \$15,473,000 under *Subhead 104 Establishment of Research and Development Centre for Nanotechnology and Advanced Materials*;
- (b) \$12,100,000 under *Subhead 105 Establishment of Research and Development Centre for Textile and Clothing*;
- (c) \$23,400,000 under *Subhead 106 Establishment of Research and Development Centre for Automotive Parts and Accessory Systems*;
- (d) \$13,592,000 under *Subhead 107 Establishment of Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies*;
- (e) \$8,305,000 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) \$14,558,000 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 and refund of grants for 2006–07 and 2007–08 are estimated at \$409,585,000 and \$284,925,000 respectively.

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(Payments)

Sub-head (Code)	Approved commitment	Actual expenditure to 31.3.2006	Revised estimate 2006-07	Estimate 2007-08
	\$'000	\$'000	\$'000	\$'000
Head 111—Innovation and Technology				
101	—	—	419,721	813,180
104	61,400	—	15,059	15,473
105	60,300	—	10,800	12,100
106	100,000	—	24,100	23,400
107	52,200	—	12,001	13,592
108	30,800	7,420	8,305	8,305
109	54,000	15,755	6,628	14,558
	56,911	45,611	11,300	—
<i>Head 111: total</i>	415,611	68,786	507,914	900,608
Total (Payments)				
	—	68,786	507,914	900,608

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(Receipts)

	Actual receipts 2005-06	Revised estimate 2006-07	Estimate 2007-08
	\$'000	\$'000	\$'000
Investment income	156,748	399,706	284,925
Refund of grants	25,671	9,879	—
Total (Receipts)	<u>182,419</u>	<u>409,585</u>	<u>284,925</u>

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Movement of the Account

	Actual				Revised Estimate	Estimate
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	4,738	4,714	4,668	4,605	4,433	4,335
Revenue	271	425	317	182	410	285
Expenditure	295	471	369	365	508	901
Surplus/(Deficit)	(24)	(46)	(52)	(183)	(98)	(616)
Write-back of Provision for Loss in Investments with the Exchange Fund	—	—	(11)ϵ	11γ	—	—
Closing Balance	4,714	4,668	4,605	4,433	4,335	3,719

ϵ 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
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Investment Income	253	415	244	157	400	285
Net Income from Project Spin-off	—	—	21	—	—	—
Refund of Grants	18	10	52	25	10	—
Total Revenue	271	425	317	182	410	285

Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m	\$m
Payments	295	471	369	365	508	901
Total Expenditure	295	471	369	365	508	901