

# **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 2018–19 and 2019–20 are estimated at \$1,984,133,000 and \$3,968,239,000 respectively.

5 Provision of \$1,732,169,000 under *Subhead 101 Innovation and Technology (block vote)* for 2019–20 is to meet payments for existing projects and new projects that may be approved in the course of the year. Of this provision, \$278,712,000 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 \$47,925,000 under *Subhead 090 Midstream Research Programme for Universities (block vote)* for 2019–20 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 2019–20:

- (a) \$80,400,000 under *Subhead 104 the Nano and Advanced Materials Institute*;
- (b) \$39,600,000 under *Subhead 105 the Hong Kong Research Institute of Textiles and Apparel*;
- (c) \$24,045,000 under *Subhead 106 the Automotive Parts and Accessory Systems Research and Development Centre*;

## INNOVATION AND TECHNOLOGY FUND

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- (d) \$44,100,000 under *Subhead 107 the Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies*;
- (e) \$800 million under *Subhead 110 Innovation and Technology Venture Fund Corporation*; and
- (f) \$1,200 million 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 2018–19 and 2019–20 are estimated at \$710,498,000 and \$706,147,000 respectively.

## INNOVATION AND TECHNOLOGY FUND

### (Payments)

Sub-head (Code)	Approved commitment	Actual expenditure to 31.3.2018	Revised estimate 2018–19	Estimate 2019–20
	\$'000	\$'000	\$'000	\$'000
<b>Head 111—Innovation and Technology</b>				
090				
Midstream Research Programme for Universities (block vote) .....	—	—	17,253	<b>47,925</b>
101				
Innovation and Technology (block vote) .....	—	—	1,386,626	<b>1,732,169</b>
104				
The Nano and Advanced Materials Institute .....	690,000	456,049	74,400	<b>80,400</b>
105				
The Hong Kong Research Institute of Textiles and Apparel .....	344,500	227,348	38,056	<b>39,600</b>
106				
The Automotive Parts and Accessory Systems Research and Development Centre .....	299,700	177,196	16,298	<b>24,045</b>
107				
The Research and Development Centre for Logistics and Supply Chain Management Enabling Technologies .....	362,400	245,956	41,500	<b>44,100</b>
110				
Innovation and Technology Venture Fund Corporation .....	2,000,000	—	250,000	<b>800,000</b>
111				
Research Centres/Laboratories for Establishment of Research Clusters .....	10,000,000	—	160,000	<b>1,200,000</b>
<i>Head 111: total</i> .....	<u>13,696,600</u>	<u>1,106,549</u>	<u>1,984,133</u>	<u><b>3,968,239</b></u>
<b>Total (Payments)</b> .....				
	<u>—</u>	<u>1,106,549</u>	<u>1,984,133</u>	<u><b>3,968,239</b></u>

**INNOVATION AND TECHNOLOGY FUND**  
**(Receipts)**

	Actual receipts 2017–18	Revised estimate 2018–19	<b>Estimate 2019–20</b>
	\$'000	\$'000	<b>\$'000</b>
<b>Investment income</b> .....	218,668	670,316	<b>706,000</b>
<b>Net income from projects</b> .....	7,327	1,308 <sup>^</sup>	<b>147<sup>^</sup></b>
<b>Refund of grants</b> .....	62,230	38,874	—
<b>Transfer from General Revenue</b> .....	—	20,000,000 <sup>@</sup>	—
<b>Total (Receipts)</b> .....	<u>288,225</u>	<u>20,710,498</u>	<u><b>706,147</b></u>

<sup>@</sup> 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.

<sup>^</sup> 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.

## INNOVATION AND TECHNOLOGY FUND

### Movement of the Account

	Actual				Revised Estimate	Estimate
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	1,812	987	42	7,991	6,796	<b>25,522</b>
Revenue	57	69	207	288	710	<b>706</b>
Expenditure	882	1,014	1,258	1,483	1,984	<b>3,968</b>
Surplus/(Deficit) before Transfer from GRA	(825)	(945)	(1,051)	(1,195)	(1,274)	<b>(3,262)</b>
Transfer from GRA	—	—	9,000	—	20,000	—
Surplus/(Deficit)	(825)	(945)	7,949	(1,195)	18,726	<b>(3,262)</b>
Closing Balance	987	42	7,991	6,796	25,522	<b>22,260</b>

### Revenue Analysis

	Actual				Revised Estimate	Estimate
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m	\$m
Investment Income	2*	3*	155	218	670	<b>706</b>
Net Income from Projects	18	12	5	7	1	—
Refund of Grants	37	54	47	63	39	—
<b>Total Revenue</b>	<b>57</b>	<b>69</b>	<b>207</b>	<b>288</b>	<b>710</b>	<b>706</b>

\* This provision includes investment income from cash balances but excludes investment income placed with the Exchange Fund. The investment incomes placed with the Exchange Fund for 2014-15 and 2015-16, which stood at \$56,827,000 and \$39,558,000 respectively, along with the investment income on other parts of the fiscal reserves, have been set aside and retained within the Exchange Fund for the Housing Reserve.

## INNOVATION AND TECHNOLOGY FUND

### Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m	\$m
Payments	882	1,014	1,258	1,483	1,984	<b>3,968</b>
<b>Total Expenditure</b>	882	1,014	1,258	1,483	1,984	<b>3,968</b>

### Estimated Outstanding Commitment of Innovation and Technology Fund

	Outstanding Commitment#
As at 31 March 2019	\$m 12,010

# For Subheads 104 to 107, 110 and 111 only.