

# 立法會 *Legislative Council*

LC Paper No. CB(1)1045/15-16(04)

Ref. : CB1/PL/CI

## **Panel on Commerce and Industry**

**Meeting on 21 June 2016**

### **Background brief on the funding initiatives to support innovation and technology start-ups**

#### **Purpose**

This paper provides background information on the funding initiatives to support Innovation and Technology ("I&T") start-ups and gives a summary of the views and concerns expressed by members on the related issues during previous discussions.

#### **Background**

2. In his 2015-2016 Budget Speech, the Financial Secretary said that "a new wave of entrepreneurship, in the form of start-ups, is emerging around the world. Many start-ups boldly apply new technologies, information technology in particular, disrupting the traditional mode of operation." In the last few years, Hong Kong has seen a notable burgeoning of start-ups and a growing interest among investors in start-ups in Hong Kong. As technology start-ups will only thrive with capital injection at different stages of development, the Innovation and Technology Bureau ("ITB")<sup>1</sup> currently provides financial support to technology start-ups through different schemes such as the Research and Development ("R&D") Cash Rebate Scheme, Enterprise Support Scheme ("ESS") and Corporate Venture Fund ("CVF") set up by

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<sup>1</sup> In November 2015, the Government established the Innovation and Technology Bureau ("ITB") for formulating policies and promoting the development of innovation and technology ("I&T") as well as information technology in Hong Kong, and coordinating relevant efforts within the Government. ITB takes up the policy responsibilities in I&T from the Commerce and Economic Development Bureau. The two government departments that are responsible for I&T matters, namely Innovation and Technology Commission and the Office of the Government Chief Information Officer report to ITB upon its establishment.

Hong Kong Science and Technology Parks Corporation ("HKSTPC"). The Innovation and Technology Fund ("ITF")<sup>2</sup>, the Cyberport Creative Micro Fund ("CCMF") and different university funding schemes also provide seed-stage funding to technology start-ups.

### Ongoing funding initiatives to support technology start-ups

#### *Cyberport Creative Micro Fund*

3. To nurture and strengthen local information and communications technology ("ICT") start-ups, CCMF was launched in 2009 under Cyberport to provide seed funding of \$100,000 each for companies to develop innovative ICT-related prototypes in a six-month project period. According to the Administration, Cyberport has set aside \$200 million for public mission programmes, including CCMF, from 2014-2015 to 2016-2017. The development of CCMF is followed up by the Panel on Information and Technology, and Broadcasting.

#### *Research and Development Cash Rebate Scheme*

4. In April 2010, the Government introduced the R&D Cash Rebate Scheme to reinforce the research culture among private companies and encourage them to establish stronger partnership with local research institutions. With a funding commitment of \$200 million approved by FC, the R&D Cash Rebate Scheme provides cash rebate to private companies on their investment in R&D projects funded by ITF or conducted in partnership with designated local public research institutions. The level of cash rebate has been raised to 40% of the investment in R&D projects from 24 February 2016.

#### *Enterprise Support Scheme*

5. ESS was launched in April 2015 to replace the Small Entrepreneur Research Assistance Programme ("SERAP") under ITF to address the limitations of SERAP and to encourage more private sector investment in I&T. The improved features of ESS are as follows –

- (a) size of company – limited companies registered in Hong Kong, regardless of size, will be eligible to apply;

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<sup>2</sup> The Innovation and Technology Fund is a statutory fund administered by the Innovation and Technology Commission to provide financial support to a spectrum of activities that boost Hong Kong's I&T capability, ranging from applied research and R&D, technology transfer and commercialization of related activities to promotional activities that foster an innovation culture within the community.

- (b) funding ceiling – funding of up to \$10 million for each approved project will be provided on a matching basis. Contribution from the applicant company should not be less than 50% of the total project cost;
  - (c) intellectual property ("IP") arrangements – as in the case of SERAP, the applicant company will own the IP of the project;
  - (d) recoupment requirement – there will be no requirement for recoupment of Government's contribution to provide greater encouragement to companies to invest in R&D; and
  - (e) benefit-sharing model – benefit-sharing is not mandatory.
6. One of the expected benefits of ESS is that it will provide stronger incentives for companies, regardless of size, to conduct in-house R&D activities, which will in turn encourage more private sector R&D expenditure in Hong Kong. According to the Administration, on the one hand, ESS will lower the threshold for technology start-ups or small and medium enterprises ("SMEs") to further their applied R&D efforts for translating the technology to marketable products or services. On the other hand, multinational corporations or large companies may be more willing to leverage on the ESS support and undertake R&D projects in Hong Kong.

#### *Corporate Venture Fund*

7. HKSTPC established CVF in July 2015 to co-invest in promising technology start-ups in Hong Kong with the following objectives –
- (a) to fill the funding gap, particularly in the seed stage to growth stage for local technology start-ups;
  - (b) to invest in high potential local technology start-ups so that they can move to the next stage of development; and
  - (c) to attract more angels and venture capitalists ("VCs") to invest in technology start-ups in Hong Kong and spurring more private funding in the local I&T ecosystem.
8. CVF is a co-investment fund operating on a matching basis. HKSTPC has earmarked \$50 million from its own resources for the implementation of CVF. Together with funding from private co-investors, at least \$100 million would be made available to the local technology start-ups.

## The proposed Innovation and Technology Venture Fund

9. As I&T start-ups require capital input at different stages of development, the Chief Executive announced in his 2016 Policy Address that the Government would set aside \$2 billion to set up an Innovation and Technology Venture Fund ("ITVF") for co-investing with private venture capital funds on a matching basis so as to encourage investment from venture capital funds in local I&T start-ups.

10. At the policy briefing session of the Panel on Commerce and Industry ("the Panel") on 19 January 2016, the Secretary of Innovation and Technology proposed to set up ITVF, under which the Government would select private venture capital funds by open invitation to co-invest in local technology start-ups on a matching basis of approximately 1 to 2. Besides increasing the investment from venture capital funds in local technology start-ups, ITVF also seeks to introduce the expertise and networks of the venture capital funds to Hong Kong so as to enhance the eco-system for start-ups.

11. Subsequently during the delivery of the 2016-2017 Budget on 24 February 2016, the Financial Secretary announced the Government's proposal to launch the \$2 billion ITVF to co-invest with private venture capital funds on a matching basis in local technology start-ups as one of the new measures to offer comprehensive support to start-ups. Moreover, the Government would extend the Internship Programme<sup>3</sup> under ITF to cover the start-ups to be funded by ITVF, in a bid to encourage more university graduates to enter the field of I&T.

### **Previous discussions**

12. The Panel was briefed on issues relating to the promotion of investment in technology start-ups at its meetings on 18 March and 16 December 2014, 21 April 2015 and 19 January 2016. The Panel also held a joint meeting with the Panel on Information Technology and Broadcasting on 14 December 2015 to discuss the work of ITB. The major views expressed by members are summarized in the ensuing paragraphs.

### Enterprise Support Scheme

13. At the meeting on 16 December 2014, members were keen to ensure that adequate support would be provided to SMEs and start-ups under ESS. Noting

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<sup>3</sup> The Internship Programme supports organizations undertaking research and development ("R&D") projects funded by the Innovation and Technology Fund to recruit graduates from local universities as interns to assist in the R&D projects. Each project can engage up to two interns at any one time for a maximum period of 24 months. The internship allowance for graduates with a Bachelor degree and that for graduates with a Master or higher degree are \$14,000 and \$16,500 respectively.

that ESS would be open to applications by all companies registered in Hong Kong, regardless of size, members were deeply concerned that small technology companies which were mostly SMEs might be less competitive than large companies when applying for ESS. In reply, the Administration said that under ESS, there would not be a quota on the number of applications to be processed or the amount of funding to be approved, so the support for SMEs would not be reduced.

14. Noting that under ESS, there was no mandatory recoupment requirement, members expressed concern that some applicant companies might lack the driving force to pursue successful commercialization of their projects vigorously. The Administration replied that without the recoupment requirement, ESS would create a more favourable environment to encourage the private sector to invest in in-house research and lead to an increase in the quantity of R&D projects, and more success stories might emerge when there was a critical mass of start-ups and technology companies.

#### Corporate Venture Fund

15. At the meeting on 21 April 2015, noting that only incubatees, graduates or current tenants of HKSTPC would be eligible to apply for CVF, members suggested that the Administration should consider relaxing the eligibility criteria to enable more technology start-ups to benefit from it. The Administration advised that given CVF was a brand new initiative, it was prudent to start investing in companies that HKSTPC was familiar with for better risk management. The Administration added that HKSTPC would conduct a review on the operation of CVF upon exhaustion of the initial allocation and consider whether to extend CVF to other technology start-ups.

16. Members also asked to what extent CVF could help attract more angel investors and VCs to invest in Hong Kong's I&T industries. The Administration replied that CVF was a co-investment fund operating on a matching basis. It was expected to help spur more private funding in the local I&T ecosystem and attract more angel investors and VCs to invest in technology start-ups in Hong Kong through risks sharing.

#### Promoting investment in technology start-ups

17. At the joint meeting with the Panel on Information and Technology, Broadcasting on 14 December 2015, members noted that given the small market size in Hong Kong, the proportion of investment required for SMEs to develop innovation and new technologies was high as compared with the return on investment. These members suggested that the Administration should provide financial support to SMEs in the form of a matching fund to encourage private sector's participation in the development on I&T in Hong Kong. The

Administration replied that it had launched ESS, which was open to companies that intended to conduct in-house R&D for products or technologies with reasonable commercialization prospect. The funding was provided on a dollar-for-dollar basis.

### Innovation and Technology Venture Fund

18. The Panel was briefed on the policy initiatives of ITB at its meeting on 19 January 2016. Some members asked whether the Administration would draw up key performance indicators ("KPIs") to assess the effectiveness of ITVF, and emphasized that the Administration should select the partners under ITVF through a fair, open and transparent mechanism. Other members enquired about the total number of jobs and/or business opportunities that would be created upon the implementation of the relevant measures to promote I&T development in Hong Kong, including ITVF.

19. The Administration responded that the Advisory Committee on Innovation and Technology had been deliberating on the viable KPIs to assess policy effectiveness and would draw up relevant KPIs in due course. The Administration also assured members that it would select the venture capital fund partners under ITVF in a fair and transparent manner. The Administration advised that it would be difficult to quantify the number of jobs and business opportunities that would be created upon implementation of the relevant measures.

### **Latest position**

20. The Administration will seek the Panel's support for the introduction of the \$2 billion ITVF for co-investing with private venture capital funds on local I&T start-ups on a matching basis.

### **Relevant papers**

21. A list of relevant papers is shown in the **Appendix**.

List of relevant papers

Date of meeting	Meeting	Paper
16/12/2014	Panel on Commerce and Industry	<p>Administration's paper on "Launching of a new Enterprise Support Scheme to replace the Small Entrepreneur Research Assistance Programme under the Innovation and Technology Fund"  <a href="#">(LC Paper No. CB(1)344/14-15(04))</a></p> <p>Background brief on launching of a new Enterprise Support Scheme to replace the Small Entrepreneur Research Assistance Programme under the Innovation and Technology Fund prepared by the Legislative Council Secretariat  <a href="#">(LC Paper No. CB(1)344/14-15(05))</a></p> <p>Minutes of meeting  <a href="#">(LC Paper No. CB(1)439/14-15)</a></p>
21/4/2015	Panel on Commerce and Industry	<p>Administration's paper on "Latest developments of the Hong Kong Science and Technology Parks Corporation"  <a href="#">(LC Paper No. CB(1)743/14-15(05))</a></p> <p>Background brief on the development of the Hong Kong Science and Technology Parks Corporation, the Hong Kong Science Park and the three Industrial Estates prepared by the Legislative Council Secretariat  <a href="#">(LC Paper No. CB(1)743/14-15(06))</a></p> <p>Minutes of meeting  <a href="#">(LC Paper No. CB(1)969/14-15)</a></p>

Date of meeting	Meeting	Paper
14/12/2015	Panel on Information Technology and Broadcasting, Panel on Commerce and Industry	<p>Administration's paper on "The work of the Innovation and Technology Bureau" (<a href="#">LC Paper No. CB(4)315/15-16(01)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(4)577/15-16</a>)</p>
19/1/2016	Panel on Commerce and Industry	<p>Administration's paper on "2016 Policy Address – Policy Initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau" (<a href="#">LC Paper No. CB(1)436/15-16(03)</a>)</p> <p>Administration's paper on "2016 Policy Address – Policy Initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation" (<a href="#">LC Paper No. CB(1)436/15-16(04)</a>)</p> <p>Administration's paper on "2016 Policy Address – Policy Initiatives of Innovation and Technology Bureau" (<a href="#">LC Paper No. CB(1)436/15-16(05)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)665/15-16</a>)</p>
17/5/2016	Panel on Commerce and Industry	<p>Administration's paper on "New initiatives under the Innovation and Technology Fund to promote innovation and technology " (<a href="#">LC Paper No. CB(1)901/15-16(05)</a>)</p> <p>Background brief on the new initiatives for promotion of innovation and technology prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)901/15-16(06)</a>)</p>