

Email

27 May 2021

Mr Boris LAM
Clerk to Panel
Legislative Council Panel on Commerce and Industry
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Lam,

Panel on Commerce and Industry

**Meeting on 20 April 2021
Follow-up Actions**

At the meeting of the Panel on Commerce and Industry on 20 April 2021, in relation to the "Latest Progress of Innovation and Technology Fund (ITF) and Funding Injection Proposal" (CB(1)776/20-21(03)), Members requested the Government to provide supplementary information on the total funding amount granted to SenseTime Group Limited under the ITF over the years, and whether the Government would consider granting funding under the ITF on the condition that the funding be converted into shares of the funded enterprises/organisations in the future. The relevant supplementary information is set out at **Annex** for Members' reference.

Yours sincerely,



(Indiana Wong)
for Commissioner for Innovation and Technology

c.c. Secretary for Innovation and Technology
(Attn: Ms Sandy Cheung)

**Panel on Commerce and Industry
Meeting on 20 April 2021**

Responses of the Government

Contribution of the Innovation and Technology Fund

The Innovation and Technology Fund (“ITF”) was established in 1999, with the major aim of promoting innovation activities and technology development in Hong Kong, enhancing the capability of our industries to innovate, and stimulating technology development and adoption in Hong Kong, as well as encouraging industry players to commercialise technology outcomes. The establishment of the ITF has also underlined the Government’s commitment to promote innovation and technology (“I&T”), and provide a secure source of funding for the relevant work. The main purpose of the ITF through providing funding support for approved projects and research and development (“R&D”) centres and laboratories is to contribute to the long term development of the local economy, instead of making capital investment for financial returns.

2. The annual expenditure of the ITF increased by over seven times from over \$700 million in 2013-14 to over \$5.3 billion in 2020-21. In recent years, Hong Kong’s gross expenditure on research and development has continually been on the rise, from \$16.7 billion in 2014 to \$26.3 billion in 2019, representing an increase of 57%. The number of R&D personnel and the number of staff members of start-ups in Hong Kong also recorded significant increase in recent years, from an average of about 75 R&D personnel per 10 000 labour force in 2014 to about 90 in 2019, with a total number of about 36 000 R&D personnel as of now. In terms of international ranking, Hong Kong ranked fifth in the world for its overall digital competitiveness; as for the performance in technological infrastructure and the Global Innovation Index, Hong Kong ranked seventh and 11th respectively. In the past 21 years, the ITF has helped nurture the vibrant development of Hong Kong’s I&T enterprises, and has become a strong support for the industries, making enormous contribution to the development of I&T and the economy in Hong Kong.

3. Each of the funding schemes under the ITF has its own nature, objective and target recipients. Some of the funding schemes assist private start-ups or enterprises to conduct or participate in R&D projects, provide cash rebate, and hire R&D talents, etc.

Total Funding Amount Granted to SenseTime Group Limited so far

4. With the funding support of the Innovation and Technology Support Programme (“ITSP”) under the ITF, the research team of a local university utilised deep learning artificial intelligence technology to conduct relevant R&D, which has successfully paved the foundation for the establishment of Hong Kong’s first technology start-up “unicorn” with a valuation of over US\$1 billion, i.e. SenseTime Group Limited (“SenseTime”). The relevant R&D project is a platform project under ITSP which was approved in 2003, with a total funding amount of about \$5.8 million.

5. On the other hand, SenseTime was the industry co-applicant of four ITSP-funded collaborative projects (i.e. the existing “Partnership Research Programme” under the ITF) between 2015 and 2019. The relevant ITF funding amount of about \$9.33 million was granted to the lead applicant of the projects (the same local university as mentioned above). Since SenseTime has contributed a total of \$11 million to the four projects, which have all reached at least 50% of the cost of collaborative projects, SenseTime could own the intellectual properties generated in the four projects.

6. Moreover, the Enterprise Support Scheme under the ITF approved an R&D project of SenseTime in 2020 to conduct R&D related to artificial intelligence, with a total funding amount of about \$6.1 million and the company contributing matching fund of \$6.1 million. In terms of technology application for the prevention and control of the epidemic, the Innovation and Technology Commission launched a special call for projects under the Public Sector Trial Scheme of the ITF in March to April 2020 to support product development and application of technologies for the prevention and control of the epidemic. A trial project undertaken by SenseTime has been approved under the special call, with a funding amount of about \$1.4 million, for conducting trials of a temperature detection device it developed in public sector organisations, so as to assist local citizens to prevent and control the epidemic.

Investing in Start-Ups

7. The Innovation and Technology Venture Fund (“ITVF”) under the ITF was launched in 2017 with \$2 billion of capital. The ITVF seeks to encourage venture capital (“VC”) funds to invest in local I&T start-ups so as to create a more vibrant I&T ecosystem in Hong Kong. ITVF co-invests with its co-investment partners (“CP”) at a matching ratio of approximately 1 (Government): 2 (CP). The investment returns of ITVF, including dividends etc., will be deposited into

its dedicated bank account for further investment. As at mid-May this year, ITVF have invested more than \$100 million in 19 local I&T start-ups, attracting around \$620 million private investment in the same round of investment.

8. There are currently nine unicorns in Hong Kong and the number of start-ups also increased from about 1 070 in 2014 to about 3 360 in 2020. The number of staff members of start-ups also increased significantly from about 2 400 in 2014 to about 12 500 in 2019, demonstrating the growing vibrancy of our I&T ecosystem.

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