

LCQ6: Support to innovation and technology companies

Following is a question by the Dr Hon Tan Yueheng and a written reply by the Secretary for Innovation and Technology, Mr Alfred Sit, in the Legislative Council today (February 16):

Question:

The "Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" proposes to adhere to innovation-driven development and enhance the technological innovation capability of enterprises. There are views that financial capital will play an important role in the relevant processes. On the other hand, the Chief Executive mentioned in the 2021 Policy Address that the Government's Innovation and Technology Venture Fund (ITVF) co-invests with venture capital funds on a matching basis in local innovation and technology (I&T) start-ups. In this connection, will the Government inform this Council:

- (1) whether it has reviewed ITVF in terms of its effectiveness, investment amount, etc.;
- (2) whether it has plans to set up more master funds and guidance funds to promote the development of I&T industrialisation; and
- (3) given that Hong Kong already has a better legislative framework and an initial public offering exit channel, whether the Government has plans to formulate policies to promote the development of private equity investment industry so as to assist I&T enterprises in financing, thereby developing Hong Kong into an I&T hub?

Reply:

President,

Supporting start-ups is an essential element in enhancing the local innovation and technology (I&T) ecosystem. The Government has all along been offering comprehensive assistance to start-ups at their different stages of development through different investment funds. The I&T ecosystem in Hong Kong has become increasingly vibrant, with the number of start-ups rising from around 1 000 in 2014 to around 4 000 in 2021, and the venture capital investment in Hong Kong also substantially increased from \$1.24 billion to over \$40 billion in the same period. After consulting the Financial Services and the Treasury Bureau, my reply regarding different parts of Hon Tan's question is as follows:

- (1) The Innovation and Technology Venture Fund (ITVF) under the Innovation and Technology Fund seeks to encourage venture capital (VC) funds to invest in local I&T start-ups. The Government set up the \$2 billion ITVF in 2017 to

co-invest in local I&T start-ups at a matching ratio of approximately 1 (Government) : 2 (Co-investment partners (CPs)). At present, the ITVF has selected a total of 11 investment funds as CPs.

As at end 2021, the ITVF has invested more than \$170 million in 23 start-ups, covering business areas in supply chain management, e-commerce, financial technology, biotechnology and artificial intelligence, etc., and attracted more than \$1.5 billion of private investment.

In order to invest in more potential local I&T start-ups, the Innovation and Technology Commission has invited a new round of applications from VC funds to become CPs in end October 2021. The deadline for application is end February this year.

(2) In the past few years, in addition to the ITVF mentioned in part (1), the Hong Kong Science and Technology Parks Corporation (HKSTPC) and Cyberport have also established the Corporate Venture Fund (CVF) and Cyberport Macro Fund (CMF) respectively to co-invest with angel investors or VC funds, etc., in start-ups, which are supported by the HKSTPC and Cyberport, on a matching basis with a view to encouraging more private investment in local I&T start-ups and building a more vibrant I&T ecosystem in Hong Kong.

The CVF and CMF have a size of \$600 million and \$400 million respectively. As at end 2021, the CVF has invested around \$240 million in 21 start-ups, attracting over \$3.1 billion of private investment, while the CMF has invested more than \$160 million in 20 companies, attracting over \$1.4 billion of private investment.

The Government will, from time to time, continue to explore how to further enhance Hong Kong's I&T ecosystem, including providing efficient and effective investment channels to facilitate the growth of Hong Kong's I&T companies.

(3) To enhance Hong Kong's position as an international asset and wealth management centre, we have completed the three-step approach by introducing the Limited Partnership Fund regime, providing tax concession for carried interest issued by private equity funds operating in Hong Kong, and establishing a re-domiciliation mechanism for foreign funds to relocate to Hong Kong. These will facilitate private equity's investments in I&T firms, both institution-wise and tax-wise. The Government will continue to strive to propel the development of the fund industry with a view to developing Hong Kong into a premier international asset and wealth management centre in Asia.