

## **ITEM FOR FINANCE COMMITTEE**

### **INNOVATION AND TECHNOLOGY FUND**

#### **HEAD 111 – INNOVATION AND TECHNOLOGY**

#### **New Subhead “Innovation and Technology Industry-Oriented Fund”**

Members are invited to approve the creation of a new commitment of \$10 billion under the Innovation and Technology Fund Head 111 Innovation and Technology for the implementation of the Innovation and Technology Industry-Oriented Fund.

### **PROBLEM**

We need to channel more market capital to invest in emerging and future industries of strategic importance, thereby promoting the sustainable development of innovation and technology (I&T) and new industrialisation-related industries in Hong Kong, and creating new impetus for Hong Kong’s real economy.

### **PROPOSAL**

2. The Commissioner for Innovation and Technology, with the support of the Secretary for Innovation, Technology and Industry, proposes the creation of a new commitment of \$10 billion under the Innovation and Technology Fund (ITF) Head 111 Innovation and Technology for the implementation of the Innovation and Technology Industry-Oriented Fund (ITIF).

### **JUSTIFICATION**

3. In order to develop I&T industries, the Government has been providing funding support in research and development (R&D) for strengthening basic research. At the same time, we have also been attaching great importance to accelerating the transformation of R&D outcomes, while facilitating the upgrading

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and transformation of traditional industries through I&T, enhancing support for I&T start-ups, developing emerging industries and formulating plans for future industries, thereby promoting new industrialisation and generating new quality productive forces.

4. To realise the development concept of “adopting an industry-oriented approach”, the Government has formulated and implemented a series of policies and measures over the past three years to deepen collaboration among the Government, industry, academia, research and investment sectors, so as to promote the development of I&T industries and new industrialisation, and construct a new real economy. This includes the \$10 billion Research, Academic and Industry Sectors One-plus Scheme launched by the Government in 2023, which aimed to unleash the potential of local universities in the transformation and commercialisation of R&D outcomes, and facilitate relevant collaboration among the Government, universities and industries. Last year, we launched the \$10 billion New Industrialisation Acceleration Scheme, which aimed to provide funding support for enterprises engaging in industries of strategic importance (i.e. life and health technology, artificial intelligence (AI) and data science, and advanced manufacturing and new energy technologies) to set up new smart production facilities in Hong Kong.

5. The long-term development of I&T industries requires substantial capital investment, particularly in relation to the promotion of the transformation and industrialisation of R&D outcomes, a need that can hardly be met solely by the Government’s contribution. In view of this, the Government has all along been encouraging the industries and social capital to actively support and invest in the I&T development in Hong Kong. Reference may be made to the successful experiences of the Mainland. Ministries and commissions such as the National Development and Reform Commission, the Ministry of Science and Technology, as well as the Ministry of Industry and Information Technology, which have all set up industry-oriented funds to give play to the guiding and leveraging roles of government funding, in order to channel more social capital to invest in industries and support the development of emerging and future industries. Moreover, our country is, at present, proactively encouraging the development of “patient capital” to support industry development. In general, industry-oriented funds not only take into account financial returns, but also the contributions of long-term investment to the local economy and society, as reflected by their dovetailing with the government’s industrial policy, attracting quality enterprises to set up footholds, developing industries and industry chains, fostering the development of ancillary industries, promoting economic and employment growth and so on. According to the information<sup>1</sup> from a relevant Mainland research institute on equity investment,

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<sup>1</sup> Source: Zero2IPO Research, belonging to the Beijing Zero2IPO Venture Information Consulting Company Limited (2025)

an aggregate of 2 178 government guidance funds had been set up in the Mainland as at 2024, with a target size of about RMB 12.84 trillion and a commitment size of about RMB 7.7 trillion.

6. To dovetail with the national strategy of developing “patient capital”, the HKSAR Government will revamp our approach in I&T industries investment, and draw on the successful experiences of the industry-oriented funds in the Mainland, in a bid to introduce an industry-oriented fund in Hong Kong that is tailored to local conditions, and in turn further promote the effective collaboration among the Government, industry, academia, research and investment sectors. The key to setting up the said industry-oriented fund is to distinguish the respective roles of the Government and the market, and continue to adhere to market-oriented operation. In particular, the Government needs to put in place an investment framework, specify the industries to be focused on, and formulate the rules and procedures for the selection of professional management institutions (fund managers), so as to create a conducive environment and conditions for the active participation of the investment sector (including investment and professional management institutions). We hope that market forces can be fully harnessed to support the growth of “patient capital” and scale up investment with the focus placed on specified industries of strategic importance, thereby promoting the sustainable development of I&T and new industrialisation-related industries in Hong Kong to showcase the principle of “a capable government and an efficient market”.

## **ITIF**

7. The Chief Executive announced in the 2024 Policy Address that the Government would set up a \$10 billion ITIF to form a fund-of-funds to channel more market capital to invest in specified emerging and future industries of strategic importance, with a view to building up the I&T industry ecosystem in a systematic manner.

## **PLANNED FRAMEWORK**

### *Fund Structure*

8. The ITIF, to be set up under the ITF, aims to cover five thematic areas, namely life and health technology; AI and robotics; semi-conductors and smart devices; digitalisation, upgrading and transformation; and future and sustainable development.

9. Our plan is to set up one or more sub-funds under each thematic area. The Government will participate as a Limited Partner (LP) of the sub-funds and make contributions to each sub-fund. The overall target size of the sub-funds will be at least \$40 billion. In other words, the capital committed by the market will be at least triple of that of the Government. Taking into account that the ITIF will operate in a market-oriented manner, we will flexibly adjust the composition, number and target size of the sub-funds under the various thematic areas subject to the market response and development of the industries. That said, the total amount of contribution of the Government will be capped at \$10 billion, and we intend to make an average contribution of \$2 billion to each thematic area.

10. To manifest more effectively the guiding and leveraging roles of the ITIF, we consider that attracting a group of strategic investors with expressed intent for investment and selecting suitable professional fund managers for the management of sub-funds will be instrumental in enhancing the effectiveness of the plan. We will elaborate the details in paragraphs 12 to 16 of this paper.

11. The Government will, in accordance with the Companies Ordinance, establish special purpose vehicle(s) (SPV) for the operation of the ITIF. The SPV will inject funds for the ITIF and receive investment returns, including proceeds following the disposal of relevant investments. The proposed fund structure is at

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### *Strategic Investors*

12. In order to guide market capital participation, the Government will proactively play the role of “setting the stage” and liaise with investors with credibility, resources and strong interest, in a bid to obtain their intent for capital commitment, as LPs, of no less than \$3 billion to their preferred sub-fund(s) under the ITIF. We believe that the participation of strategic investors could further guide other market capital to participate on the basis of the Government’s contribution of \$10 billion, and ease the potential difficulties encountered by fund managers in raising substantial capital from other market investors, thereby expediting the establishment and commencement of operation of the sub-funds.

13. We have so far obtained the expressed intent of over 10 organisations to become strategic investors of the ITIF, a reflection of their support for the development of Hong Kong’s I&T industries and their intent to commit capital and participate in the ITIF. Nonetheless, the Government will not enter into any legally binding agreement with any individual organisation for becoming strategic

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investors. Whether or not they will make commitment to different thematic areas and the commitment amount will be subject to the investment decision of individual organisations and will hinge on their specific collaboration with the fund managers during their participation in the sub-funds.

### *Fund Management*

14. In view of the mode of participation of strategic investors as mentioned above, the Government will not set up any dedicated fund-of-funds management structure for the ITIF. All investors will invest directly in the sub-funds under different thematic areas. In other words, the Government, strategic investors and other market investors will all participate as LPs and make contributions to the sub-funds.

15. The Government will formulate professional, fair and impartial rules and procedures and openly accept applications from eligible institutions to become fund managers of the sub-funds under the ITIF. Upon the completion of a stringent selection process, the Steering Committee for the ITIF (Steering Committee) to be set up will evaluate and confirm no less than 10 qualified fund managers. The fund managers selected shall, in accordance with the fundraising requirements, raise market capital (including from strategic investors and other non-affiliated investors) within a specified period. Depending on their fundraising outcomes, fund managers that could meet the fundraising conditions and fulfil the requirements under the framework for the management of investments will set up the sub-funds under the corresponding thematic areas in form of limited partnership fund and assume the role of General Partners of the sub-funds. They shall be responsible for managing the daily operation of the sub-funds, and screening for suitable projects for investment in accordance with the investment framework.

16. As investors contributing a relatively large amount of capital, strategic investors are generally concerned about matters on fund management, including the selection criteria and application eligibility for fund managers. In this connection, the Government, while upholding the principles of openness, fairness, impartiality and professionalism, welcome and encourage applications from outstanding fund managers. That being said, all applications must go through the established selection procedures. The Government supports and encourages free matching between qualified fund managers and strategic investors as well as other market investors, but the Government will not participate in the matching and collaboration processes.

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*Investment Targets*

17. The ITIF will, through diversified investment portfolios, not only make early investment in small businesses and hardcore technology, but also invest in enterprises at different stages of development, such as industry chain leaders or top-notch enterprises. Efforts will also be made to attract different enterprises from the Mainland and overseas based on the practical situation to complement and strengthen the targeted industry chains, and promote co-operation between enterprises at various nodes of the industry chains, with a view to developing industry chains equipped with Hong Kong's competitive edge.

*Framework for the Management of Investments*

18. In January 2025, the Government invited the market to submit Expression of Interest (EOI) for the ITIF. Taking into account the views of the relevant stakeholders, the framework of the sub-funds to be set up under the ITIF is proposed as follows –

- (a) **Fund establishment** – Each of the fund managers selected shall set up a limited partnership fund in accordance with relevant stipulations of the Limited Partnership Fund Ordinance (Cap. 637).
- (b) **Investment sectors** – Each limited partnership fund should focus on the following thematic areas –
  - (i) life and health technology;
  - (ii) AI and robotics;
  - (iii) semi-conductors and smart devices;
  - (iv) digitalisation, upgrading and transformation; and
  - (v) future and sustainable development.
- (c) **Fund size** – The target fund size of each sub-fund will be at least \$2 billion. The Government's total contributions to all sub-funds will be capped at \$10 billion. With the goal that the total contributions from the market will be at least triple of that of the Government, the overall target size of the sub-funds will be at least \$40 billion. We will flexibly adjust the size of the sub-funds under individual thematic areas subject to the market response and actual situation.
- (d) **Fundraising requirements** – The fund managers selected are required to raise non-Government capital from the market (including from strategic investors and other market investors) for the proposed sub-funds. In the light of the participation of strategic investors, the specific fundraising requirements for fund managers are as follows –

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- (i) if the capital commitment of strategic investor(s) is secured, the fund manager shall raise further capital from the market of at least \$1 billion, or in the amount equivalent to half of the commitments of the Government and strategic investor(s), whichever is higher;
  - (ii) if the requirement set out in item (i) above has been fulfilled, but the amount of capital raised has yet to reach the target fund size, the fund manager shall raise further capital from other market sources to reach the target fund size; and
  - (iii) if the participation of strategic investor(s) has not been secured, the fund manager shall raise capital from other market sources to reach the target fund size.
- (e) **Arrangement for the Government's contribution –**
  - (i) based on the fundraising outcomes of the fund managers selected, the Government will, as the last LP to contribute capital, commit at most \$1 billion to each sub-fund. Also, the Government's contribution will not exceed 25% of each of the sub-funds and capital injections will be made in five to six years from 2026-27.
  - (ii) the fund managers of the sub-funds will devise investment plans for five to six years according to the Government's financial estimates. The Government's contribution shall be paid on the agreed pro rata ratio upon receipt of the drawdown notice for each specific investment from the fund managers.
- (f) **Arrangement for Fund manager's contribution –** not less than 2% of the total fund size in accordance with market practice.
- (g) **Fund term –** up to 12 years (including extension periods), with an investment period of five to six years.
- (h) **Investment requirements –** For each sub-fund –
  - (i) 100% of the fund size must be invested in enterprises related to Hong Kong I&T and new industrialisation-related industries as well as their industry chains;
  - (ii) at least 50% of the fund size must be invested in Hong Kong enterprises or non-Hong Kong enterprises which are going to establish operation in Hong Kong. The non-Hong Kong

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enterprises concerned must set up key segments related to I&T or new industrialisation-related industries as well as their industry chains in Hong Kong with substantive operations, such as headquarters, regional headquarters, R&D centres, innovation centres and advanced manufacturing bases. They are not allowed to solely engage in traditional businesses such as finance, trading and management; and

- (iii) at least 25% of the fund size must be allocated within the investment period for the establishment and operation of production and manufacturing bases in Hong Kong, covering pilot production lines, testing procedures, etc.
- (i) **Investment stage** – The investees can be enterprises of various sizes and/or at different stages of development.
- (j) **Investment instruments** – Investments in private equity and convertible bonds of enterprises engaging in businesses under the thematic areas.
- (k) **Investment restrictions** – Investments in shares of listed companies, other private equity funds, secondary shares, loans, crypto-related investments, gambling-related investments and investment related to real estate operating business are not allowed.
- (l) **Management fees charged by fund managers (concerning the Government's contribution)** –
  - (i) During the investment period: Not more than 2% per annum on the invested capital of the Government (i.e. 2% on the invested cost of all investments).
  - (ii) Post-investment period: Not more than 2% per annum on net invested capital of the Government (i.e. 2% on the invested cost of all unsold investments).
  - (iii) Maximum management fee: During the entire operation period of a sub-fund (including investment, exit and extension periods), the total management fees charged shall be capped at 10% of the amount of Government's capital commitment to the sub-fund.
- (m) **Carried interest** – up to 20%.
- (n) **Hurdle rate (on a compound basis)** – at least 6% per annum.

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- (o) **Eligibility of fund managers** – Some of the basic requirements are as follows –
- (i) must be registered in Hong Kong;
  - (ii) must hold<sup>2</sup> a licence for Type 9 regulated activity (asset management) issued by the Securities and Futures Commission;
  - (iii) must possess relevant experience, with a track record of raising funds for equity investment or managing equity investments with assets under management totalling \$2 billion or above (or equivalent amount in foreign currencies);
  - (iv) must have an established office in Hong Kong with a local team<sup>3</sup>;
  - (v) must have a number of successful equity investment cases in relevant investment sector(s);
  - (vi) must have the capability to bring in non-Hong Kong companies to establish their operations in Hong Kong, and possess relevant track records and project pipelines;
  - (vii) must provide letter(s) of intent for capital commitment from potential investors (may include strategic investors and other market investors) when submitting an application for becoming a fund manager of the ITIF, so as to prove that the fund manager has secured for the proposed sub-fund a total of at least \$1 billion capital commitments from non-Government investors (may include strategic investors and other market investors). Moreover, they must provide a clear fundraising plan; and
  - (viii) must raise market capital (including from strategic investors and other market investors) in accordance with the fundraising requirements within 12 months upon confirmation as a qualified fund manager.

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<sup>2</sup> Fund managers that do not hold a licence for Type 9 regulated activity (asset management) issued by the Securities and Futures Commission could still participate in the selection process. However, they must submit the progress or plan of their licence application and ensure that they will have obtained the said licence when the sub-fund is set up.

<sup>3</sup> Fund managers that do not have an established office in Hong Kong with a local team could still participate in the selection process. However, they must submit their plans of establishing a local office and ensure that they will have an established office in Hong Kong with a local team when the sub-fund is set up.

19. We must emphasise that the ITIF will be based on market-oriented operation. Accordingly, the Government will, on the premise of preserving the Government's and the public's interest, maintain flexibility in formulating and adjusting relevant details, so as to take into full account market conditions, and aim to, through highly effective collaboration among the Government, industry, academia, research and investment sectors, implement the proposal so as to drive the development of I&T and new industrialisation-related industries in Hong Kong.

#### *Monitoring and Review Mechanism*

20. The Government will set up a Steering Committee for the ITIF, comprising representatives from the commercial, I&T and investment sectors as well as relevant representatives of the Government, to provide independent advice to the Government on matters related to the ITIF, including the Government's contributions, establishment and management of sub-funds, investment targets, investment management and agreement framework, selection of fund managers, monitoring and review, etc. Members are required to declare their interest at the Steering Committee meetings. In the event that the matter on which voting is required poses an actual or potential conflict of interest for a member, the member concerned should refrain from voting.

21. We will also put in place appropriate monitoring and review mechanisms. For example, a limited partnership agreement, which sets out the responsibilities and obligations of the fund managers, shall be signed between the Government (through the SPV) and the fund managers and all other investors. The limited partnership agreement will incorporate proper terms and conditions to protect the interest of all investors (including the Government). We will also appoint an external auditor to carry out annual audits of the financial statements for the SPV of the ITIF, as well as review the operation of the ITIF and report to the relevant Legislative Council Panel as appropriate.

22. We, together with other LPs, will keep monitoring the operation of the various sub-funds under the ITIF and the performance of fund managers. We will conduct regular reviews and seek advice from the Steering Committee where appropriate to ensure that funding is properly disbursed and spent. Fund managers shall submit regular management reports to the Steering Committee for monitoring purposes, and the Government reserves the right to terminate collaboration with any fund manager found to be involved in illegal acts or under certain conditions, including but not limited to –

- (a) proposed investments fail to meet the relevant investment requirements;

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- (b) proposed investments are in conflict with the existing or planned government policies or legislation;
- (c) there is cause to believe that the proposed investees may be involved in activities that may bring the Government into disrepute; or
- (d) proposed investments are in violation of the terms of the limited partnership agreement.

## EXPECTED BENEFITS

23. The proposed \$10 billion ITIF is expected to commence its investments progressively from 2026-27 and attract market capital of at least \$30 billion to invest in targeted industries. Having regard to relevant experiences of the Mainland and other regions, our vision is to leverage the guiding effect of the ITIF to entice a variety of market capital other than the ITIF to actively invest in I&T industries through different forms of investment, thereby bringing the overall industry investment size to \$100 billion in the coming decade.

24. In addition, benefitting from the market-oriented operation, investment projects screened and participated by sub-fund managers should be able to yield certain financial returns. From a macro perspective, the proposal will facilitate the growth of “patient capital” in Hong Kong, and in turn attract quality enterprises to set up footholds in Hong Kong, nurture I&T enterprises, develop industry chains equipped with Hong Kong’s competitive edge, and promote the development of targeted industries. In the long run, the thriving development of I&T industries will help consolidate our I&T strengths, increase tax revenue and enhance employment opportunities, as well as drive the development of ancillary industries. All these are conducive to the diversification of Hong Kong’s economy, and will bring about more opportunities for the local financial market and support our continuous development as an international financial centre.

## FINANCIAL IMPLICATIONS

25. Subject to Members’ approval, we will create a new dedicated subhead with a commitment of \$10 billion under the ITF in order to set up the ITIF. We will inject capital into different sub-funds in five to six years from 2026-27 for fund managers to make investments. Any investment returns, including dividends and realised profits from exits of the investments concerned, will be deposited into the dedicated account(s) of the SPV established for the ITIF. The Government will take into consideration the balance of the ITF and the dedicated account(s), as well as the cash flow requirements of various funding schemes under the ITF (including

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the implementation of the ITIF) and make an injection into the ITF as and when necessary. The relevant injection will be reflected in the annual Estimates for the ITF of the relevant financial year. The annual cash flow of ITIF will depend on the actual number and amounts of the investments for each sub-fund, expected number and amounts of the investments in the coming year for each sub-fund, and the investment returns received, subject to the periodic review by Innovation and Technology Commission (ITC) taking into account prevailing market conditions and industry needs.

26. The ITC will set up a Secretariat<sup>4</sup> for the administrative work related to the ITIF.

## IMPLEMENTATION TIMETABLE

27. Subject to the approval by the Finance Committee, we plan to set up the ITIF in 2025 and take forward the open selection of fund managers.

## PUBLIC CONSULTATION

28. We consulted the Panel on Commerce, Industry, Innovation and Technology of the LegCo on the ITIF proposal on 17 December 2024 and obtained its support on the submission of the proposal to the FC for consideration. In mid-January this year, the Innovation, Technology and Industry Bureau and the ITC issued an open invitation to the market to submit EOI and views regarding the ITIF. Over 60 submissions have been received by early March. We will continue to maintain close communication with stakeholders and formulate the implementation details and guidelines.

## BACKGROUND

### *ITIF*

29. The Chief Executive announced in the 2024 Policy Address that a \$10 billion ITIF would be set up to form a fund-of-funds to channel more market capital to invest in specified emerging and future industries of strategic importance, including life and health technology, AI and robotics, semi-conductors and smart devices, advanced materials and new energy, etc., with a view to building up the I&T ecosystem in a systematic manner. The Financial Secretary mentioned in the 2025-26 Budget Speech that the Government will channel more market capital to invest in emerging and future industries of strategic importance through the ITIF.

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<sup>4</sup> We will explore hiring professional service providers (such as legal or investment consultants), and if necessary, apply for additional manpower and resources in accordance with established procedures, to assist with the work of the Secretariat.

*ITF*

30. On 30 June 1999, the LegCo passed a Resolution under section 29 of the Public Finance Ordinance (Cap. 2) to establish the ITF. This statutory fund aims to finance projects that contribute to I&T upgrading and development in manufacturing and services industries in Hong Kong, thereby enhancing Hong Kong's economic development. Currently, there are 16 funding schemes under ITF<sup>5</sup>, supporting R&D, facilitating technology adoption, promoting new industrialisation and developing new quality productive force, nurturing I&T talent, supporting technology start-ups, and fostering an I&T culture. Each of the funding schemes has its own objective, scope, and modus operandi. The ITF also has other support programmes, including to fund, in full or in part, the operating expenditure of the R&D Centres/laboratories and Technology Transfer Offices of universities.

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Innovation, Technology and Industry Bureau  
Innovation and Technology Commission  
July 2025

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<sup>5</sup> Will progressively be consolidated to 13 funding schemes

### Fund Structure of Innovation and Technology Industry-Oriented Fund

