

**For discussion
on 19 March 2024**

**Legislative Council
Panel on Commerce, Industry, Innovation and Technology**

“New Industrialisation Acceleration Scheme”

PURPOSE

This paper aims to brief Members on the proposed implementation arrangements under the “New Industrialisation Acceleration Scheme” (NIAS).

BACKGROUND

2. A vibrant I&T ecosystem hinges on the comprehensive development of and positive interaction among the upstream, midstream and downstream sectors. The Government published the “Hong Kong Innovation and Technology Development Blueprint” (The “Blueprint”) in December 2022 which outlined the four broad development directions and eight major strategies including continued enhancing the I&T ecosystem and promoting interactive development of the upstream, midstream and downstream sectors so as to build up a comprehensive I&T eco chain. To this end, the current-term Government has adopted a series of measures to implement the development directions of the “Blueprint” so as to consolidate Hong Kong’s strengths in upstream basic research, accelerate the transformation and realisation of midstream research and development (R&D) outcomes and support the development of downstream industries for promoting the development of “new industrialisation”.

3. In order to promote the development of downstream industries, the Government is actively attracting top-notch strategic I&T enterprises from overseas and the Mainland to set up or expand business in Hong Kong as well as encouraging local enterprises to upgrade and transform with the use of I&T to achieve smart production and enhance competitiveness. Nonetheless, various economies have been proactively attracting high-end advanced manufacturing facilities to set up their facilities in their country/region. While Hong Kong enjoys clear advantage in the upstream sector with our robust basic R&D capability, we have just managed to stabilise the declining trend of our manufacturing sector's contribution to the GDP in recent years and it is imperative for the Government to continuously create favourable conditions in order to inject momentum to push forward New Industrialisation and boost the manufacturing sector's contribution to the local economy.

4. In order to enhance the competitiveness of Hong Kong in attracting strategic enterprises to set up production facilities in Hong Kong, we consider it important to provide both financial incentives and other support to these strategic enterprises to embark on such projects as the investment required for establishing such facilities would be substantial. Therefore, the Chief Executive announced in the 2023 Policy Address the setting up of the \$10 billion NIAS to accelerate the development of “new industrialisation” in Hong Kong.

NEW INDUSTRIALISATION ACCELERATION SCHEME

5. We propose to launch a \$10 billion NIAS under the Innovation and Technology Fund (ITF), which will be implemented under the following broad directions –

- (a) to promote the downstream development of new industrialisation by providing financial assistance to encourage companies in industries of strategic importance (i.e. life and health technology, artificial intelligence (AI) and data science, and advanced

manufacturing and new energy technologies) in setting up new production facilities in Hong Kong;

- (b) to encourage companies from industries of strategic importance to carry out or increase their scale of R&D in Hong Kong by providing additional funding incentives for companies to engage research talents; and
 - (c) to facilitate companies from industries of strategic importance in employing non-local talents required for setting up or operating the new production facilities in Hong Kong.
6. In order to provide comprehensive support to the targeted enterprises, we propose NIAS to include the following –
- (a) funding support for the setting up of new production facilities in Hong Kong (NIAS);
 - (b) relaxation on the maximum number of research talents engaged under the Research Talent Hub (RTH) for companies under the NIAS (RTH-NIAS); and
 - (c) allowing companies under the NIAS to employ non-local technical personnel to facilitate the set-up and/or operation of the new large-scale smart production facilities in Hong Kong under the Technology Talent Admission Scheme (TechTAS-NIAS).

NIAS

Eligibility Criteria and Funding Principles

7. All applicants are required to fulfill the following conditions –
- (a) a company that is incorporated in Hong Kong under the Companies Ordinance (Cap. 622);

- (b) commit an investment of no less than \$200 million of funding that is within the approved funding scope in the setting up of the new smart production facilities in Hong Kong in the designated technology areas of life and health technology, AI and data science, and advanced manufacturing and new energy technologies; and
 - (c) the smart production facilities proposed in (b) above should be advanced in nature, i.e. the integrated and intelligent use of “smart” technologies such as Internet of Things, real-time data acquisition, application of data analytics and advanced human-machine interfaces, AI/machine learning/deep learning, automation and robotics, sustainable technology, sensors and actuators, etc. in the production process.
8. Under the NIAS, funding will be provided on a 1 (government): 2 (enterprise) matching basis, with the Government covering a maximum of one-third of the approved project expenditure or \$200 million per project, whichever is lower. In other words, the applicant has to contribute no less than two-thirds of the total approved project expenditure.
9. Similar to the funding scope of the existing New Industrialisation Funding Scheme (NIFS), the funding under the NIAS will cover expenses directly related to the establishment of the new production line in Hong Kong, including the costs of procurement, set-up, installation and commissioning of the machinery/software and equipment/apparatus, as well as fees for engaging technical consultancies for the design and setting up of the production line concerned, including testing and staff training. As we envisage that production facilities to be established under the NIAS will be of much larger scale than the existing NIFS, the cost of procurement, installation and commissioning of specialised facilities including but not limited to the necessary associated fitting-out cost that are essential to the operation of the production facilities (e.g. clean room, anti-seismic structure for micro-electronic factory, specified storage facilities etc.) will also be funded under the NIAS. Expenditure items under the NIAS shall not receive funding from any other funding schemes

of the Government as well as those administered by public bodies. General business operating expenses of the applicant enterprise will not be funded.

Project Vetting and Implementation

10. ITC will first conduct a preliminary assessment of the application received including checking of basic eligibility and conducting initial assessment on financial capability of the applicant. After the initial assessment, endorsement of the New Industrialisation Development Office led by the Commissioner for Industry (Innovation and Technology) will be sought on whether the proposed new smart production facilities are from industries of strategic importance and whether they could fulfil the advanced manufacturing element. After going through the relevant procedures, the application will be submitted to the Vetting Committee (VC) of NIAS.

11. The existing VC of the NIFS which comprises members from trade associations, industry associations, I&T sector, and representatives from relevant Government departments have accumulated experiences in vetting NIFS applications on smart production lines over the past three years, and the vetting procedure and application requirements and principle of NIAS are similar to the NIFS. In view of the synergy between NIAS and NIFS, we propose that the NIAS will also be supported by the same VC, and the VC will be renamed as the “New Industrialisation Vetting Committee” (NIVC) after inclusion of NIAS. In view of the increase in anticipated applications, the membership of the NIVC will be suitably expanded. The NIVC will be responsible for drawing up a set of application guidelines as well as assessment and funding criteria, consider and recommend applications, oversee the implementation and evaluate the outcome of approved projects, regularly review and monitor the overall progress of the NIAS and the NIFS and evaluate their effectiveness. If necessary, external experts will be engaged and consulted on the technical aspects of the applications. Applications supported by NIVC will be submitted to Commissioner for Innovation and Technology for approval.

Assessment Criteria

12. To ensure the proper use of public money, all applications will be vetted based on their individual merits in accordance with paragraph 7 to 11 above and based on the following –

- (a) Economic benefits;
- (b) Financial considerations;
- (c) Implementation viability;
- (d) Technical, financial and management capabilities; and
- (e) Industry advancement of new smart production facilities.

We will formulate the detailed weighting and assessment criteria after consulting the NIVC.

Control and Review Mechanism

13. We propose to put in place the following control and review mechanisms under the NIAS –

- (a) A successful applicant company will be required to enter into a funding agreement with the Government and carry out the approved project in accordance with the agreement;
- (b) Grant will be disbursed on a reimbursement basis after completion of the project and the Government's approval of the final project report and final audited accounts submitted by the enterprises. Interim reimbursement arrangement will be made

available in accordance with the duration of the project¹. We expect that most approved projects will be completed within 36 months;

- (c) Upon project completion and before disbursement of the final instalment, the enterprises concerned would be required to provide information to the Government on the benefits of the relevant production line, such as the business turnover after the commissioning of the production line, and the number and types of new jobs created, etc.; and
- (d) Given that significant public money is involved in each application, to ensure that the funded projects can bring substantive economic benefits to Hong Kong for a reasonable period, unless with prior written approval from the Government, the production facilities funded cannot be transferred to other parties or to any place outside Hong Kong within a specified period of, say, five years after project completion. The project agreement would set out the above restriction and that the Government has the right to recoup the funding disbursed in case of non-compliance. We will also create a legal charge in respect of the relevant production facilities and register such a charge with the Companies Registry.

RTH-NIAS

14. Currently, the total engagement period of RTH talents for an applicant company under the RTH scheme shall not exceed 144 months, or for the duration of the concerned ITF project, whichever is shorter; and

¹ If the project duration is over 12 months but not more than 24 months, the Government will disburse interim funding of not more than 50% of the approved funding amount upon the Government's acceptance of the progress report(s) and audited account(s) submitted by the enterprises which certify that certain project milestones have been achieved. If the project duration is over 24 months, the Government will disburse interim funding of not more than 60% of the approved funding amount by two batches upon acceptance of the progress reports and audited accounts submitted by the enterprises.

an applicant company can only engage up to 4 research talents at any one-time. In order to encourage companies from industries of strategic importance to carry out or increase their scale of R&D in Hong Kong, we will establish a new stream under RTH (i.e. RTH-NIAS) to relax the restriction on the number of research talents engaged under RTH for companies under the NIAS scheme.

15. We propose that for companies with application approved under the NIAS, in addition to the quotas of engaging 4 research talents with a total engagement period of 144 months under the existing RTH, such companies may engage an additional 36 talents for an additional total engagement period of three years on a 1 (Government): 1 (enterprise) matching basis under the new stream of RTN-NIAS, with the Government covering a maximum of half of the monthly salary of the research talent or half of the prevailing maximum monthly salary allowance for the research talent, whichever is lower.

16. The funding scope, project vetting and implementation of RTH-NIAS will follow the existing arrangement for RTH. In the event that the mother project under the NIAS is terminated or/and the contribution from the applicant did not meet the minimum requirement of \$200 million, the approved application for RTH will be revoked and funding will not be provided to the applicant. The Government will also reserve the right to recoup the disbursed funding.

TechTAS-NIAS

17. Launched in June 2018, the TechTAS provides a fast-track arrangement for admitting overseas and Mainland technology talent undertaking R&D activities in specified technology areas in Hong Kong².

² Technology companies can apply for quotas from ITC and they may use the allotted quotas to sponsor non-local talents to apply for employment visas/entry permits to work in Hong Kong during the two-year quota validity period. The 14 technology areas under TechTAS are advanced communication technologies, artificial intelligence, biotechnology, cybersecurity, data analytics, digital entertainment, financial technologies, green technology, integrated circuit design, Internet-of-Things, material science, microelectronics, quantum technology and robotics.

Recognising the manpower need of NIAS companies especially at the technician level, we consider it necessary to flexibly allow them to employ non-local technical personnel who possess the required skills/know-how and relevant experience in setting up and operating new large-scale smart production facilities in Hong Kong under TechTAS-NIAS. By allotting quotas for admitting the technical personnel, these companies are provided with certainty to proceed with the procurement, installation and operation plan for necessary equipment and machinery in Hong Kong.

18. As TechTAS-NIAS is specifically drawn up to meet the manpower need for non-R&D activities by the enterprises under NIAS, we shall introduce it on a pilot basis for three years and limit the eligibility to the beneficiaries of NIAS. They may apply up to five TechTAS-NIAS quotas for each application with validity of two years. We estimate that the total quotas allotted under TechTAS-NIAS would not exceed 500.

19. Proper control mechanism will be put in place that companies approved under the NIAS are required to confirm their difficulties in recruiting local technicians and the remuneration package not lower than the prevailing market level in Hong Kong should be offered to non-local talent, in line with the existing requirements by TechTAS.

EXPECTED BENEFITS

20. We aim to attract around 50 to 100 enterprises to set up new production facilities in Hong Kong with a corresponding direct investment of no less than \$20 billion from these enterprises under NIAS starting from 2024-25 over a period of around five to eight years.

FINANCIAL IMPLICATIONS

21. Subject to Members' support, we will seek the approval of the Finance Committee (FC) of the Legislative Council to create a new subhead with commitment of \$10 billion under ITF to fund the projects

approved under the NIAS. The annual cash flow requirement for the NIAS will depend on the number of applications received and approved, as well as the amount of funds that need to be disbursed.

22. Regarding the relaxation measure under RTH-NIAS, if we assume that there will be 100 NIAS projects (maximum number) and each applicant company would engage 40 research talents with doctoral degree for three years, the maximum additional requirement to be funded by the ITF will be around \$3.68 billion.

23. ITC will set up a team to handle the administrative work related to the NIAS, for instance, carrying out preliminary assessment of the applications, disbursing funds, monitoring the progress of approved projects, reviewing the operation of the NIAS, making recommendations to improve the modus operandi of the NIAS as well as performing the assessment of RTH-NIAS applications and arranging for the disbursement of funds and monitoring progress of approved projects. The team will also conduct promotion and publicity activities of the NIAS. ITC has included provision in the 2024-25 draft Estimate of ITC to meet the expenditures of the NIAS team.

IMPLEMENTATION TIMETABLE

24. We intend to seek approval for NIAS from the FC within the second quarter of 2024 for its launch in the second half of 2024.

ADVICE SOUGHT

25. Members are invited to support the Government to seek the approval of FC to create a new subhead of \$10 billion under the ITF for launching the NIAS as proposed in this paper. We welcome Members' views on the implementation details of the proposed NIAS and will continue to closely liaise with stakeholders and refine the modus operandi of the Scheme.

Innovation, Technology and Industry Bureau
Innovation and Technology Commission
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