


Guide to the Innovation and Technology Fund

Volume I
Innovation and Technology
Support Programme

May 2009

 **Innovation and
Technology Commission**

The Government of the Hong Kong Special Administrative Region

	<u>Page</u>		<u>Page</u>		
Chapter I	INTRODUCTION	1	Chapter V	CHANGE REQUESTS AND UNALLOWABLE COSTS	24
Chapter II	GENERAL FEATURES	3			
2.1	Who are Eligible to Apply?	3	5.1	Change Requests	24
2.2	Funding Schemes	3	5.2	Unallowable Costs	25
2.3	Funding Support	6	Chapter VI	SUBMISSION OF REPORTS AND DISBURSEMENT OF FUNDS	32
2.4	Industry Sponsorship	7			
2.5	Project Steering Committee under the Collaborating Research Scheme	9	6.1	Progress Reports	32
2.6	Commercialisation and Intellectual Property Rights	9	6.2	Disbursement of ITF Grants	33
2.7	Application Procedures	11	6.3	Final Report	34
Chapter III	VETTING AND ASSESSMENT PROCEDURES	13	6.4	Suspension or Termination of Funding Support	35
			6.5	Return of Residual Funds	36
3.1	Vetting Procedures	13	6.6	Post-Project Evaluation Report	36
3.2	Vetting Criteria	14	Chapter VII	PROCUREMENT AND RECRUITMENT	37
3.3	Avoidance of Conflict of Interest	15			
3.4	Notification of Results	16	7.1	Procurement Procedures	37
3.5	Withdrawal	16	7.2	Hiring of Project Staff	39
3.6	Resubmission	16	7.3	Title to Equipment	39
3.7	Returns	17	Chapter VIII	PUBLICITY	41
Chapter IV	PROJECT AGREEMENT AND PROJECT ACCOUNT	18			
			8.1	Publicity and Acknowledgement	41
4.1	Contractual Requirement	18	Appendix	Summary of Major Requirements for Tier 3	42
4.2	Separate Account and Interest	18			
4.3	Books and Records	19			
4.4	Reporting Requirements	21			
4.5	Auditing Requirements	22			

Chapter I

INTRODUCTION

- 1.1 The Innovation and Technology Fund (ITF) is set up by the Government to provide funding support to projects that contribute to innovation and technology upgrading in industry, as well as those essential to the upgrading and development of industry. It aims to increase the added value, productivity and competitiveness of our economic activities. The Government hopes that, through the ITF, Hong Kong companies could be encouraged and assisted to upgrade their technological level and introduce innovative ideas to their businesses.
- 1.2 The Government adopts a three-tier structure in funding proposals under the Innovation and Technology Support Programme (ITSP). Tier 1 provides project funding for the R&D Centres under different technology areas¹. Tier 2 involves the funding of R&D project proposals submitted under selected focus themes, including proposals submitted under the Guangdong-Hong Kong Technology Cooperation Funding Scheme (TCFS). Tier 3 involves the funding of more forward-looking and innovative applied R&D projects.
- 1.3 ITSP is administered by the ITF Secretariat under the Innovation and Technology Commission (ITC), the Government of the Hong Kong Special Administrative Region.

¹ With funding support from the HKSAR Government, five R&D Centres have been set up since April 2006 to drive and coordinate applied research in the following technology areas: automotive parts and accessory systems; information and communications technologies; logistics and supply chain management enabling technologies; nanotechnology and advanced materials; and textiles and clothing.

Address: 20/F, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong. Tel : (852) 2737 2229; Fax : (852) 2957 8726.

- 1.4 **This Guide provides the details of the funding schemes for Tier 2 and Tier 3 under ITSP, covering** the eligibility criteria, the application procedures, vetting and assessment procedures, and the rules that need to be followed if an application is approved. Further details on individual rounds of project solicitation exercise will be set out in the respective solicitation document. Applicants should read this Guide and the relevant solicitation document carefully before submitting applications. Tier 1 funding schemes generally follow the requirement of this Guide. For details of the application procedures and other particular requirements of the R&D Centres' funding arrangements, please contact individual Centres as appropriate.

Chapter II

GENERAL FEATURES

2.1 *Who are Eligible to Apply?*

2.1.1 Local universities, research institutes, industry support organisations, trade and industry associations, professional bodies and local companies (either locally incorporated or established under the statute of the Hong Kong Special Administrative Region) are eligible to apply. The principal applicant organisation should be a company incorporated in Hong Kong under the Companies Ordinance (Cap. 32) and have substantial connection² to Hong Kong OR a body corporate incorporated in Hong Kong under other ordinances of the Hong Kong Special Administrative Region.

2.2 *Funding Schemes*

Tier 1

2.2.1 Tier 1 supports projects undertaken by the R&D Centres established under the ITF. For details, please contact the respective R&D Centres.

Tier 2

2.2.2 There are three schemes applicable under Tier 2:-

- (a) **Platform Research Scheme** – the scheme covers **platform projects** whose applicants are local non-profit-distributing organisations including local

publicly-funded research institutes (including universities, Hong Kong Productivity Council etc.), industry support organisations, trade and industry associations and professional bodies.

- (b) **Collaborating Research Scheme** – the scheme covers **proprietary projects** whose applicants are private sector companies with local publicly-funded research institutes as partners. Substantial contribution to a project is expected from the research institute, and the research institute's researchers should be the core project team members and should conduct a major part of the R&D work of the project. To avoid conflict of interest, the research institute and the company have to be operated at arm's length in terms of ownership or assistance by the research institute to the company. In general, the research institute cannot own more than 50% of the company's shares. Furthermore, the project team members and the steering committee members (please see paragraph 2.5 below) representing the research institute should not be directors/shareholders/ management team members of the company.

- (a) **Company Research Scheme** – the scheme covers **proprietary projects** whose applicants are private sector companies without local publicly-funded research institutes as partners.

2.2.3 For TCFS, all projects will have to demonstrate the element of Guangdong/Hong Kong cooperation (e.g. collaboration between research institutes and enterprises in Guangdong/Shenzhen and Hong Kong). In the case of Collaborative Research Scheme, the applicant company should have substantial connection² to Hong Kong, or have industry operations in the Guangdong Province.

² A company which has substantial connection to Hong Kong means that it must have a significant proportion of its research, design, development, production, management or general business activities located in Hong Kong.

Tier 3

2.2.4 The objective of Tier 3 is to support projects which are exploratory, forward-looking and innovative in nature. There is no focus theme requirement.

2.2.5 The specific features of Tier 3 are as follows:-

- (a) In general, project proposals falling under the technology areas of the R&D Centres may be submitted provided that they are exploratory, forward-looking and innovative in nature.
- (b) Project proposals which fall under the scope of other government funding schemes (e.g. the Health and Health Services Research Fund, the Infectious Disease Research Fund), should not be submitted.
- (c) Since the project proposals are expected to be more innovation and technology driven, industrial sponsorship is not mandatory but is still encouraged. Funding priority will be given to applications that have secured cash sponsorship.
- (d) Project proposals for follow-on R&D work of projects approved in previous rounds of Tier 3 invitations as well as those which are the follow-up projects to, or which leverage on the results of, other completed basic research projects (whether or not undertaken by the applicant organisation) may also be submitted.
- (e) Projects should be completed within 18 months.

2.3 Funding Support

2.3.1

	Form of funding support
Tier 2	
Platform Research Scheme	A grant up to a maximum of 90% of the total approved project cost.
Collaborating Research Scheme	A grant up to a maximum of 50% of the total approved project cost, subject to contribution by the applicant company (in cash and/or in kind) amounting to no less than 50% of the total approved project cost.
Company Research Scheme	A grant up to a maximum of 25% of the total approved project cost or HK\$2 million whichever is lower, with the applicant company contributing no less than 75% of the total approved project cost in cash .
Tier 3	A grant up to HK\$1 million or the total approved project cost, whichever is lower.

At Appendix is a summary of the major requirements for Tier 3 funding schemes.

2.3.2 ITF funding may be used for meeting the manpower, equipment and other direct costs specifically required for the conduct of the project. For projects involving recurrent expenditures, the applicant organisation has to demonstrate that such expenses will be of a specified finite duration or that the project will become self-financing after the completion of the project. For Collaborating Research Scheme, the ITF funding will be disbursed to the local publicly-funded research institutes. For Company Research Scheme, only 50% of the cost of new equipment specifically purchased for the project can be included in the budget.

2.3.3 The total approved project cost mentioned in paragraph 2.3.1 above and elsewhere in this Guide should be the sum of all approved expenditures (including expenditure items to be covered by in-kind sponsorship, if any) and the approved institution administrative overheads³, if any. For projects under the Collaborating Research Scheme, the approved institution administrative overheads are to be contributed by both ITF and the company.

2.3.4 A list of unallowable cost items which cannot be charged to the project account is set out in paragraph 5.2 of Chapter V.

2.4 *Industry Sponsorship*

2.4.1 All projects under the Platform Research Scheme would require sponsorship from more than one private firm (which should in general be the deliverable users) and not related to the applicant organisation in terms of ownership or management. For TCFS, the sponsoring company should come from the Greater Pearl River Delta region. Sponsorship from a company not meeting the above conditions (such as the equipment/service suppliers or event organisers) would still be welcome, but would not be counted for the purpose of meeting the sponsorship requirement. The sponsorship can either be in cash or in kind or a combination of both, and should cover at least 10% of the total approved project costs, except with the specific approval of the Commissioner for Innovation and Technology (CIT). Funding priority will be given to applications that have more sponsorship in particular in the form of cash.

³ Local universities, the Vocational Training Council and the Hong Kong Institute of Vocational Education are allowed to charge administrative overheads for undertaking ITF projects. Please refer to the section on "Administrative Overheads" in the Supplementary Note (for Universities) for details of the administrative overheads.

2.4.2 For projects under the Collaborating Research Scheme, the applicant company should make contribution (which can be in cash and/or in kind) amounting to no less than 50% of the total approved project cost.

2.4.3 Any in-kind sponsorship should only be in the form of equipment or consumables and would only be accepted provided that:

- (a) the in-kind sponsorship is essential to the project and is contributed by the industry specifically for the project. In this connection, donation of in-kind sponsorship by the participating research institute would not be accepted as it is not contributed by the industry;
- (b) the in-kind sponsorship should be included as part of the industry sponsorship or matching funds, as appropriate, of the project budget while the corresponding expenditure of the same amount should be included in the expenditure section;
- (c) the delivery status of the in-kind sponsorship should be reported in the progress/final reports of the projects; and
- (d) documentary proof of the value of sponsorship should be provided to facilitate an objective assessment of the fair value of contribution. Where documentary proof is not available, reasons should be given and properly documented.

Manpower contribution would be welcome but would not be counted as industry sponsorship as such in the project account.

2.4.4 Industry sponsorship is not mandatory for Tier 3 projects.

2.4.5 For successful applications under Platform Research Scheme, at least half of the **cash** sponsorship has to be in place before commencement of the project and all sponsorship (including both cash and in-kind) should be received during or before the second last half-yearly cashflow period of the project. For successful applications under Collaborating Research Scheme, the participating company is required to make its contribution before ITF makes each instalment of funds to the project, and the participating company's contribution and the ITF instalment should be in proportion to their respective contribution in the total approved project cost.

2.5 *Project Steering Committee under the Collaborating Research Scheme*

2.5.1 A steering committee shall be established to monitor the project progress, endorse progress reports/final report, and financial statements and audited accounts of the project before their submission to the ITC. The committee should comprise representatives of the participating company and the research institute and should meet at least once every three months. The participating company and its partner research institute have to jointly submit to CIT regular half-yearly progress reports and a final report, together with copies of the minutes of the committee meeting, on the project. Please refer to Chapter VI on submission of reports.

2.6 *Commercialisation and Intellectual Property Rights*

2.6.1 Intellectual property rights mean all intellectual property rights arising from the project including designs, inventions, patents, copyrights, rights in goodwill, and trade marks, whether registered or unregistered. In this regard, patent registration fee for functional inventions directly relating to the project may also be included in the budget. The patent registration

fee charged to the project account should not be more than HK\$100,000, or 90% of the total direct costs involved in patent registration, whichever is the lower. For projects under Collaborative Research Scheme and Company Research Scheme where the intellectual property will be owned by the private companies, ITF funding should not be used to meet the expenditure on patent registration.

2.6.2 Unless otherwise specified, for projects under Tier 2 Platform Research Scheme and Tier 3, the recipient organisation will normally own all intellectual property arising from the project and is required to disseminate/transfer the project results to industries through workshops, seminars, licensing or consultancy arrangements etc. Exclusive use of the project results is not allowed unless otherwise approved by CIT. The recipient organisation should refer to those parts relevant to the Innovation and Technology Support Programme in the guidelines governing the commercialisation of the results of ITF projects should it intend to exclusively dispose of a project in part or in whole. The guidelines can be downloaded from the website <http://www.itf.gov.hk>. Under special circumstances where public interests are involved or where the public mission of the ITF needs to be fulfilled, the recipient organisation may be required to grant unconditionally and irrevocably to the Government a non-exclusive perpetual royalty-free worldwide and sub-licensable licence to exploit, deal with or otherwise dispose of the rights. To encourage more contributions from the industries, the recipient organisation may nevertheless negotiate with interested companies, in particular the sponsors, regarding the sharing of intellectual property, licensing arrangement etc. The sponsors can have priority use of the project results.

2.6.3 For projects under the Collaborating Research Scheme and the Company Research Scheme where the applicants are private

sector companies, the companies will normally hold all the intellectual property arising from the project.

- 2.6.4 The arrangement on the sharing of research results including intellectual property should be clearly set out in the project proposal and is subject to the approval of CIT. The arrangement specified in paragraph 2.6.2 above will not apply if the intellectual property is to be owned by sponsoring organisations or collaborating organisations as specified in the project proposal and approved by CIT.
- 2.6.5 For projects under TCFS, the above arrangements are also applicable unless otherwise specified in the solicitation documents for the project solicitation exercise.

2.7 *Application Procedures*

- 2.7.1 Applications should be completed and submitted electronically through the Innovation and Technology Commission Funding Administrative System (ITCFAS) at the ITF website <http://www.itf.gov.hk>. All sections of the online application form have to be completed with supporting documents wherever required. Before submission, applicants should read this Guide and the explanatory notes in the application form carefully. Each applicant/applicant organisation can submit more than one application for different projects. No application fee will be charged. Unless on the request of the ITF Secretariat, supplementary information on an application provided after submission of the application will not be accepted and will not form part of the application.
- 2.7.2 Applicant organisation should also provide the business background of the collaborating organisations (if any) and details (including justifications) of such kind of collaboration in the applications (e.g. a copy each of the agreement with each collaborating organisation where such agreement should

clearly set out the collaborating activities, the project role of the organisations, the arrangements on the sharing of research results such as intellectual property etc).

Chapter III

VETTING AND ASSESSMENT PROCEDURES

3.1 Vetting Procedures

3.1.1 Upon receipt of an application, the ITF Secretariat will conduct a preliminary screening and may seek clarification or supplementary information from the applicant. Where necessary, individual application may be subject to external peer review. The ITF Secretariat's assessment, together with the results of any external peer review, will be submitted to the ITSP Panel of Assessors for examination and advice to the CIT. The Panel comprises members from different sectors: businessmen, technologists, academics and Government officials. They provide the necessary commercial, technical and policy input in the assessment and monitoring processes. The membership list of the Panel of Assessors is available at the website <http://www.itf.gov.hk>.

3.1.2 For projects under Collaborative Research Scheme and Company Research Scheme, an internal assessment panel comprising ITC staff will be convened to assess the application against the vetting criteria as set out under paragraph 3.2 below, instead of submitting the applications to the ITSP Panel of Assessors.

3.1.3 Project team members may be required to attend assessment meetings to present their projects to and answer queries from the assessment panel/ITF Secretariat.

3.1.4 Where the ITF grant for a project exceeds HK\$21 million, approval from the Finance Committee of the Legislative Council is required.

3.1.5 By submission of the project proposals to ITC, applicants are deemed to have given the requisite consent and authorisation to ITC for disclosing the project proposals to third parties for evaluation and assessment purpose.

3.2 Vetting Criteria

3.2.1 In considering proposals, due consideration will be given to, inter alia, the following wherever applicable:

- (a) the potential of the project to facilitate general upgrading and future development of one or more sectors in industry; contribute to innovation and technology upgrading of the economy, and broaden the scientific and technical knowledge base of the economy;
- (b) whether there is substantial contribution from the relevant industries in particular in the form of cash sponsorship (except for Tier 3);
- (c) whether there is a demonstrated need for the proposed project;
- (d) whether similar products, technologies or services are already available in the market, and whether the project is duplicating or likely to duplicate the work carried out by other institutions;
- (e) the overall planning and organisational structure of the project and the technical and project management capability of the project team i.e. the project team members' experience, qualifications, track record, and the resources available for the project;

- (f) whether the proposed budget is reasonable and realistic and whether the project should be funded by other sources, such as the Research Grants Council, the Health and Health Services Research Fund and the Research Fund for the Control of Infectious Diseases;
- (g) for proposals involving the collaboration between a private company and a local research institute, whether the R&D content merits the participation of the local research institute and the commitment of the company and the research institute to the project in terms of financial contribution and manpower involvement; and whether the project should be delivered by the company as part of its normal business activities and development or service engagement; and
- (h) (for Tier 3) whether the proposal is exploratory, forward-looking and innovative in nature; the project has exceptional merits (e.g. with major technology breakthrough); the project has considerable innovation and technology contents; and the project has demonstrated strong support from the relevant industry.

3.3 *Avoidance of Conflict of Interest*

- 3.3.1 To avoid conflict of interests, members of the assessment panel who are directly or indirectly related to an application will normally be required to leave the conference room and refrain from the discussion of that application. This will apply to members who are part of the project team, and chairman/president, vice-chairman/vice president, director, advisor and secretary, whether paid or unpaid, or a paid staff of the applicant organisation, an implementing organisation, a collaborating organisation or a sponsoring organisation.

3.4 *Notification of Results*

- 3.4.1 For projects for which funding support is recommended with conditions (e.g. to revise the project scope or deliverables, to remove unallowable cost items, etc.), the applicant organisation may be required to submit a revised application proposal and the ITF Secretariat will issue an approval-in-principle letter to the applicant organisation for preparation of project cashflow etc. Subject to further vetting by the ITF Secretariat, the revised application proposal, together with other necessary documents like the cashflow for the project, will be formally approved and appended to the project agreement.
- 3.4.2 If an application is declined, the ITF Secretariat will provide in writing the reasons for the decision.

3.5 *Withdrawal*

- 3.5.1 The applicant organisation can write to the ITF Secretariat to withdraw an application at any time before an agreement is signed between the Government and the applicant organisation.

3.6 *Resubmission*

- 3.6.1 A previously declined application may be resubmitted in a new round of application only if it has been revised substantially or if it has been able to produce additional information to address the comments made by the assessment panel and/or ITF Secretariat in its earlier review. In completing the application form for a resubmitted application, the applicant should set out clearly the differences of the resubmitted application vis-à-vis the previous one. The revised application will be treated as a new application, and will be subject to the same assessment procedures.

3.7 *Returns*

3.7.1 Applications will be returned if they are submitted by ineligible organisations or if they have been declined previously but have not been revised in accordance with paragraph 3.6 above.

Chapter IV

PROJECT AGREEMENT AND PROJECT ACCOUNT

4.1 *Contractual Requirement*

4.1.1 For each project for which grants have been approved, the applicant organisation (and the recipient organisation, if different from the applicant organisation) has to sign an agreement with the Government and comply with all the terms and conditions laid down in the project agreement, this Guide and all instructions and correspondences issued by CIT from time to time in respect of the project.

4.2 *Separate Account and Interest*⁴

4.2.1 For projects other than those under Tier 2 Company Research Scheme and Tier 3 which are submitted by private sector companies, the recipient organisation is required to open a separate risk-free interest-bearing bank account (project bank account) with a licensed bank registered under the Banking Ordinance (Cap. 155) specifically for processing all receipts and payments of each project. The ITF grants and all other receipts (including cash sponsorship and funding from other sources) arising from the project should be deposited into the project bank account and all payments exclusively applied to the project for which they were paid should be paid out from the project bank account. All project funds (including ITF grants, all other receipts and interest income) should be kept in the project bank account by the recipient organisation who should, until such funds are spent (paid) in accordance with the

⁴ For universities, please also refer to the Supplementary Note attached to this Guide.

compliance requirements as specified in paragraph 4.1.1 above/returned to the Government by the recipient organisation, hold the same as trustee for the Government.

4.2.2 Unless otherwise specified in the project agreements, all interest income generated in the project bank account should be credited back to the project account, should not be used and should be returned to the Government on completion of the project or termination of the project agreement. (Please also see paragraph 6.5 of Chapter VI for details on Return of Residual Funds.) The recipient organisations are not entitled to charge to the project account any interest expenses or claim any compensation or relief of whatsoever nature against the Government in the event of any late or withholding of payment of the ITF for any whatsoever reason.

4.2.3 The recipient organisation may be required to compensate the Government for loss of interest income if the project fund is not properly handled in accordance with paragraphs 4.2.1 and 4.2.2 above. In this regard, the Government will take such action as may be deemed necessary.

4.3 ***Books and Records***

4.3.1 The recipient organisation (and the co-applicant organisation and/or the implementing organisation(s), if any) is required to keep a proper and separate set of books and records (project account) for each project. The project account should be maintained in such a manner as to enable the production of Statement of Income and Expenditure and Balance Sheet in respect of the project. All income and expenditure of a project should be properly and timely recorded in the books of accounts.

4.3.2 Accrual basis of accounting should be adopted for all projects. Unless otherwise approved by CIT, expenditure could only be

charged to the project account after the equipment and goods have been received and used, or services delivered. Moreover, the expenditure so charged should be incurred between the project commencement date and completion date as specified in the project agreement. Sponsorship income and all other income, budgeted or not, should form part of the income of the project and should be used solely for the project and their usage should follow the approved project budget, this Guide and instructions laid down for the projects. All the income and expenditure of a project must be received/accrued and expended (paid)/accrued respectively in accordance with the basis of each budget line item as set out in the approved project budget.

4.3.3 The books and records of the project should be kept by the recipient organisation (and the co-applicant organisation and/or the implementing organisation(s), if any) for at least two years after completion of the project or termination of the project agreement, or as otherwise specified by CIT within that two-year period. In this connection, CIT and the Director of Audit will have unhindered access to the books of accounts and records when conducting financial audit and inspection of such books and records at any time when such books and records are kept and have rights to obtain photocopies of such records, if necessary. CIT and the Director of Audit may at their absolute discretion request the recipient organisation, the co-applicant organisation and/or the implementing organisation(s) to make available and/or deliver photocopies of such records to the Government at its sole costs and expenses. When so requested in this connection, the organisation(s) will be obliged to make available all project books of accounts and records and explain to CIT and the Director of Audit any matters relating to the income, expenditure or custody of any money derived from the project. The Director of Audit may carry out value for money studies on any organisation in receipt of ITF grants. CIT reserves the right to require

recipient organisations to return mis-spent amount together with interest income accrued to the Government.

4.4 **Reporting Requirements**⁵

4.4.1 The recipient organisation has to submit to CIT half-yearly/final accounts of all income and expenditure (together with its half-yearly progress reports/final report) as well as annual and final audited accounts. The financial statements for progress reports and annual audited accounts of each project can be prepared on either *accrual* or *cash* accounting basis. However, the financial statements for the final report and the final audited accounts of each project have to be prepared on *accrual* basis. The audited accounts should comprise Statement of Income and Expenditure, Balance Sheet, Notes to the Accounts and Auditor's Report.

- (a) Annual audited accounts made up to 31 March each year should be submitted on or before 30 June of that particular year. The first annual audited accounts may cover more than 12 months but not more than 18 months. The last annual audited accounts can be waived if it covers not more than 18 months.
- (b) Final audited accounts covering the period from project commencement date to project completion date or termination date of the project agreement should be submitted within three months from the completion date of the project or termination date of the project agreement.

4.4.2 All income received/receivable and expenditure incurred (paid or payable) for the project during the reporting period should

⁵ For universities, please also refer to the Supplementary Note attached to this Guide.

be fully and properly accounted for in accordance with the project agreement, this Guide and all instructions and correspondences issued by CIT in respect of the project and should be the same as recorded in the books of accounts for that reporting period. The annual/final accounts of a project should be properly prepared from and in agreement with the books of accounts of the project. The financial position reported in each half-yearly progress reports/final report and annual/final audited accounts should tie in with the technical progress/results of that reporting period(s)/year(s). No adjustments relating to prior and/or the subsequent period(s)/year(s) are allowed once the progress report(s)/final report and/or annual/final audited accounts for that reporting period(s)/year(s) have been submitted to ITC except the correction of arithmetic errors or adjustments as requested by CIT. Arithmetic errors should be rectified within the first three months of the period covered by the ensuing progress report.

4.4.3 Any record of mishandling of public funds or lack of discipline in financial management or non-compliance with the terms and conditions of the project agreement is a factor which the ITF Secretariat will take into account in considering future applications from the same organisation or the same project team members.

4.5 **Auditing Requirements**

4.5.1 The requirement to submit annual/final audited accounts is to assure the Government that the project funds were fully and properly applied to the projects for which they were paid, and received and expended in accordance with the approved project budget; and that the recipient organisation complied with the funding terms and conditions in the administration, management and usage of the ITF project. The annual/final audited accounts should be reported by independent auditors

who must be Certified Public Accountants holding a practising certificate registered under the Professional Accountants Ordinance (Cap. 50) (the Auditors) and conducted in accordance with the latest version of the Notes for Auditors of Recipient Organisations (the Notes) issued by the ITF Secretariat.

- 4.5.2 The recipient organisation should specify in the engagement letter for the employment of the Auditors that they should strictly follow the requirements stipulated in the latest version of the Notes in conducting a reasonable assurance engagement and preparing auditors' report for each annual/final account of each project. The engagement letter should also specify that CIT, the Director of Audit and his authorised representatives should have the right to communicate with the Auditors on matters concerning the annual/final accounts and the supporting statements. In addition, the recipient organisation should ensure that each of the auditors' reports strictly follows the specimen as attached to the latest version of the Notes.
- 4.5.3 Recipient organisations are required to make available to the Auditors all information, documents and explanations relating to the project. The information and documents mainly comprise project agreement, this Guide, any instructions and correspondences issued by CIT in respect of the project, progress report(s)/final report and project accounts and records.
- 4.5.4 External audit fees relating to the project and arising from compliance with the provisions of the ITF agreement have to be included in the budget. The maximum funding support allowed for an annual/final audited account of a project costing less than HK\$1 million, between HK\$1 million and HK\$5 million and more than HK\$5 million should not be more than HK\$5,000, HK\$10,000 and HK\$20,000 respectively.

Chapter V

CHANGE REQUESTS AND UNALLOWABLE COSTS

5.1 *Change Requests*⁶

- 5.1.1 An approved project is required to be carried out strictly in accordance with its proposal appended to the ITF agreement. Any modification, amendment or addition to the project or the agreement, including change of the project commencement or completion dates⁷, key project staff (including project coordinator, deputy project coordinator and principal investigator) or key equipment⁸, scope, methodology, budget (other than circumstances set out in paragraph 5.1.2 below) or cashflow projection, will require prior specific written approval by CIT. The project coordinator should inform the ITF Secretariat well in advance by submitting a change request electronically through ITCFAS. The project coordinator is responsible for overseeing the project generally; monitoring its expenditure and ensuring the proper usage of project funds in accordance with the approved project budget, this Guide and other instructions set for the projects; liaising with and answering all enquiries/requests raised by CIT and the ITF Secretariat for information and clarification on all aspects of the project; and attending progress meetings on the project. For those projects that fall under the specific technology areas

⁶ For universities, please also refer to the Supplementary Note attached to this Guide.

⁷ The commencement and completion dates are specified in the project agreement. They could not be varied unless there has been a mutual agreement in writing between the contractual parties.

⁸ Key project staff and key equipment are identified in the project proposal appended to the project agreement.

of the R&D Centres, the projects may be monitored by the respective R&D Centre.

5.1.2 For budget control purpose, the actual expenditure for any individual item may exceed at most 10% of the original budgeted expenditure for that item if this does not result in any increase in the overall total approved project cost and the total amount of ITF grants requested and that all expenditure follows the relevant requirements set out in this Guide. Justification is required to be disclosed for any spending in excess of the budget items in the relevant half-yearly progress report(s) and/or final report. Notwithstanding this, prior written approval is required to be sought from the CIT if budgeted expenditure is to be transferred to any **unbudgeted expenditure item** (e.g. new/alternative equipment item, new project staff, revised number/rank of the project staff, new/alternative consumable item). Such request should be made electronically through the ITCFAS. The final decision on whether certain items of income and/or expenditure should be included/charged to a project should vest with CIT.

5.2 *Unallowable Costs*

General

5.2.1 All project funds (including ITF grants allocated to recipient organisations, sponsorship and other income) are for the sole purpose of carrying out the projects. Project funds may be used for covering -

- (a) the costs of manpower specifically employed for carrying out the project;
- (b) new equipment procured specifically for carrying out the project; and

(c) other direct costs which are specifically incurred for carrying out the project.

5.2.2 All expenditure to be covered by the project funds must be exclusively used for the project and incurred within the project period, except otherwise approved by CIT. When preparing the project budget contained in the application proposal, all expenditure items have to be grouped under the categories of manpower, equipment and other direct costs. Unspecified cost items such as miscellaneous, sundry and contingency etc. will not be accepted by the ITF Secretariat and should not be included in the budget.

*Manpower*⁹

5.2.3 Unless otherwise agreed by CIT, the ITF will not pay any emolument to a person who is already on the payroll of the Government or a Government sub-vented body/institution. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned.

5.2.4 Subject to paragraph 5.2.3 above, project coordinators, deputy project coordinators and project team members may charge their efforts to the project on a full-time basis or a pro-rata/hourly basis provided that a monthly time sharing record of their working time devoted to the project is maintained.

5.2.5 Notwithstanding paragraph 5.2.4, an applicant organisation must not charge the salary of its existing staff against the project unless this is a deployment absolutely necessary and essential for the project and CIT's prior approval has been obtained. In case only a certain percentage of the working

⁹ For universities, please also refer to the Supplementary Note attached to this Guide.

time of the staff is deployed for the project, his/her salary can be charged on a pro-rata/hourly basis provided that a monthly time sharing record devoted by the staff to the project is maintained.

5.2.6 Specifically, project funds cannot be used to cover the following expenditure items:

- (a) annual salary increment, except cost of living adjustment at a rate comparable with and applicable to civil service.
- (b) gratuities, fringe benefits and allowances other than employer's contribution to the Mandatory Provident Fund (MPF). Such fringe benefits and allowances include expenses on housing (including nominal rental for quarters), education, training, passage and travelling¹⁰, food, medical, dental, insurance, severance pay, overtime and untaken leave, etc.

Equipment

5.2.7 Cost of new equipment for implementing the project can be charged to the project account¹¹. In general, hire-purchase of equipment is not allowed. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the applicant organisation is

¹⁰ Local/overseas training, study/trade mission and field trip are normally not allowed unless otherwise fully justified. These should be itemised and put under the category of "Other Direct Costs" in the budget of the application proposal for ITC's approval. The number of participants should be limited to no more than one person from the project team, members of which shall be from the recipient or the implementing/co-applicant organisations. Any travelling expenses incurred for such purposes should account for no more than 5% of the total amount of funds requested from the ITF and cover the cost of economy class fares (if any) incurred by project team members.

¹¹ For projects under the Company Research Scheme, only 50% of the cost of the newly purchased equipment can be charged to the project account.

required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Applicants are required to specify in detail in the application and project budget if such incident will happen. Applicants are encouraged to share the use of existing equipment within their organisations or from other organisations. Maintenance cost of the existing equipment can be charged against the project account on a pro-rata basis if the applicant organisation (excluding universities) maintains a record on the usage of the equipment. For the sake of clarity, such maintenance/rental cost (if any) should be placed under "Other Direct Costs".

5.2.8 Any piece of equipment for the project purchased using ITF funds may be installed in the facilities of a collaborating organisation located outside Hong Kong subject to the following general principles:

- (a) the equipment is under the ownership of the local university/research institute applicant organisation throughout the project period and for at least two additional years thereafter. In this connection, paragraph 7.3 of this Guide and the section on "Title to Equipment" in the Supplementary Note (for Universities) are applicable;
- (b) the equipment is relevant and essential for the project research;
- (c) the collaborating organisation at which the equipment is to be installed should be a university or a public research institute (but not a private sector company); and
- (d) the cost of the equipment concerned should not account for a dominant part of the equipment budget (in general, the total cost of all equipment to be installed outside Hong Kong should be less than 25% of the total

equipment budget, as a substantial part of the R&D activities is required to be conducted in Hong Kong).

Equipment installation arrangements not meeting the above conditions would be unacceptable as a general rule, except with CIT's prior approval for the rare cases warranting special considerations.

5.2.9 Specifically, project funds cannot be used to cover -

- (a) rental/time cost of existing equipment owned by the recipient organisation; and
- (b) depreciation/amortisation or provisions not representing actual expenses incurred.

5.2.10 For general office and IT equipment specifically required for the project, they have to be either included in the approved budget with full justifications given or the funding of which has been specifically approved by CIT, or otherwise the costs of such items cannot be charged to the project account.

*Other Direct Costs*¹²

5.2.11 Project funds cannot be used to cover:

- (a) building facilities (including office, laboratory, accommodation) - rates, rental, renovation, and operation, repair and maintenance expenses.
- (b) costs of setting up office or forming association/consortium.

- (c) utilities - charges for electricity, gas, water, telephone and fax.
- (d) transport - shuttle bus services and home to workplace travelling expenses.
- (e) general administration and office expenses.
- (f) staff-related costs - provident fund handling charges, staff training and development costs and staff facilities.
- (g) entertainment expenses, and any prizes, either in the form of cash or other types of souvenirs.
- (h) advertisement (except for disseminating project deliverables, or recruitment of staff listed in the approved budget or subsequently approved by CIT).
- (i) organisation of trade missions and participation fees at study/trade missions for individuals/companies¹³.
- (j) charges for non-R&D services provided by the recipient organisation or their contractors/agents - e.g. accounting services, personnel services, procurement services, library services, security services, cleansing services, legal services, and central and departmental administrative services.
- (k) costs related to prior/subsequent year(s)/period(s) adjustment(s)¹⁴.
- (l) capital financing expenses, e.g. mortgage and interest on loans/overdrafts.

¹² For universities, please also refer to the Supplementary Note attached to this Guide.

¹³ Please also see note 10 on page 27.

¹⁴ Please also see paragraph 4.4.2 of Chapter IV.

- 5.2.12 The list of unallowable cost items for manpower, equipment and other direct costs set out in this paragraph 5.2 is not exhaustive. Recipient organisations should consult the ITC if they have any doubts about whether an item could be charged to a project account.

Chapter VI

SUBMISSION OF REPORTS AND DISBURSEMENT OF FUNDS

6.1 Progress Reports

- 6.1.1 All projects are monitored against their stated milestones, with the support of experts outside the Secretariat and, where appropriate, through the peer review mechanism. Recipient organisations, or the participating company and its publicly-funded research institute partner where appropriate, have to submit half-yearly progress reports until project completion or termination of the project agreement for each of their projects for approval according to the schedule as set out in the project agreement. All progress reports should be prepared in the standard format stipulated by CIT and submitted through the ITCFAS. In-depth technical details should be provided to facilitate assessment. For projects under the Collaborating Research Scheme, minutes of meetings of the steering committees of individual project held during the period covered by the progress report have to be submitted as Annexes to the report. When preparing the Statement of Income and Expenditure for the progress report, please refer to paragraphs 4.3 and 4.4 of Chapter IV for details. Upon request by CIT, recipient organisations are required to provide timely clarification and/or additional information to substantiate the content of progress reports. Where appropriate, each progress report will then be submitted to the assessment panel for consideration and comments. Details of the commercialisation plan of project results will be required to be reported in the last progress report and final report. CIT may organise visits or progress review meetings to examine the progress of a project. For those projects that fall under

the specific technology areas of the R&D Centres, the projects may be monitored by the respective R&D Centre.

6.1.2 For projects relating to technology development, particularly those seeking to develop new technology, there would be a mid-term evaluation during which the likelihood of success and the latest global developments in the same area should be re-examined in detail.

6.2 *Disbursement of ITF Grants*

6.2.1 Disbursement of ITF grants will be done by instalments. For projects under Tier 2 Platform Research Scheme and Tier 3 (except for those undertaken by private sector companies), the first instalment will only be effected when all the required documents have been submitted and at least half of the **cash** sponsorship, if applicable, is in place. Unless circumstances justify otherwise, other instalments of ITF grants, if any, will be disbursed only if the project is able to meet the prescribed milestones and ITC is satisfied with its progress and that there is evidence showing due contribution by the sponsor(s), if any, to the project. All committed sponsorship (including both cash and in-kind) should be received during or before the second last half-yearly cashflow period of the project.

6.2.2 For projects under Collaborating Research Scheme, the ITF funding will be disbursed to the local publicly-funded research institute. The first instalment will only be effected when all the required documents have been submitted and the participating company has made its corresponding contribution (including its share for the approved institution administrative overheads if such overheads are to be disbursed upon project commencement) to the project. Subsequent instalments, if any, will be disbursed only if the project is able to meet the prescribed milestones and ITC is satisfied with its progress and

there is evidence showing due contribution by the company to the project.

6.2.3 For projects under Tier 2 Company Research Scheme and those under Tier 3 undertaken by private sector companies, the ITF grants will be disbursed by half-yearly instalments and payable to the company in arrears. Each instalment, being the actual project expenditure incurred during the immediately preceding six-month period (or for Company Research Scheme, 25% of the actual expenditure incurred), but capped to a certain percentage of the approved grant proportional to the number of instalment payments, will only be effected when the progress report is accepted by CIT. The final instalment, comprising the remaining contribution to the actual expenditure of the project, will only be effected when the final report is accepted by CIT.

6.2.4 CIT reserves the right to withhold any further payment to the project if there is any delay in submission of progress report.

6.2.5 For some projects, the ITF Secretariat may consider it necessary to withhold a sum of retention money of 5% of the ITF fund, until all the prescribed milestones have been completed satisfactorily and all the requirements set down by the Secretariat have been accomplished.

6.2.6 In addition, the ITC reserves the right to withhold a sum of retention money of 5% of the ITF fund (or for Company Research Scheme, any payment) if there is any record of non-compliance with the terms and conditions of the project agreement.

6.3 *Final Report*

6.3.1 Within two months from project completion date or termination date of the project agreement, the recipient

organisation has to submit a final report covering the period from project commencement date to project completion date or termination date of the project agreement, in which, among other things, quantifiable results of the project (both technical and financial) as well as further details for the commercialisation of the project results have to be set out. The final report should be prepared in the standard format stipulated by CIT and submitted through ITCFAS. In-depth technical details should be provided to facilitate assessment.

6.3.2 Upon receipt of the final report of a project, the ITF Secretariat will assess the effectiveness of the project by comparing the project results against its original objectives and targets (both technical and financial) as set out in the project proposal. Feedback from the project teams, their partners/sponsors, the relevant business sector, and the experts that have assisted in the project assessment would be sought. Upon request by CIT, recipient organisations are required to provide timely clarification and/or additional information to substantiate the content of the final report.

6.3.3 Where appropriate, the final report will be submitted to the assessment panel for consideration and comments. The project coordinator and/or other project team members may be invited to present the project results.

6.4 *Suspension or Termination of Funding Support*

6.4.1 CIT may terminate a project or suspend ITF fund at any time for reasons which include, inter alia, lack of progress of the project in a material way, slim chance of completion of the project in accordance with the project proposal, the original objectives of project being no longer relevant to the needs of the industry as a result of material change in the circumstances, objectives and relevance of the project having been overtaken

by events, or CIT seeing fit to terminate the project in public interest.

6.5 *Return of Residual Funds*¹⁵

6.5.1 The recipient organisation should return to the Government all residual funds (or the Government's share of the residual funds calculated in proportion to the percentage specified in the project agreement for Collaborating Research Scheme) remaining in the project account mentioned in paragraph 4.3 of Chapter IV (including interest income) upon completion of the project or termination of the project agreement and all actual interest income accrued from project completion date or termination date of the project agreement up to the date of payment, within 90 days after such completion or termination. CIT may take such action as may be deemed necessary in case of unreasonable delay in the return of residual funds and interest income to the Government.

6.6 *Post-Project Evaluation Report*

6.6.1 The recipient organisation may be required to submit a post-project evaluation report for its project to report on the efforts in publicising and technology transfer of the project deliverables, and to provide quantitative measurement on the adoption of the project results by the industry. The report can be in whatsoever form and format as specified by CIT.

¹⁵ Not applicable to projects under the Company Research Scheme and Tier 3 submitted by private sector companies as disbursements are against actual expenditure.

Chapter VII

PROCUREMENT AND RECRUITMENT

7.1 *Procurement Procedures*¹⁶

7.1.1 The recipient organisation should ensure that all procurements for goods and services are carried out in an unbiased and fair manner and must comply with the following procedures unless CIT agrees otherwise.

- (a) For every procurement the aggregate value of which does not exceed HK\$50,000, quotations from at least two suppliers should be obtained. The recipient organisation should select the supplier that has submitted the lowest bid. If the lowest bid is not selected, full justifications must be given.
- (b) For every procurement the aggregate value of which exceeds HK\$50,000 but does not exceed HK\$1,300,000, quotations from at least five suppliers should be obtained. The recipient organisation should select the supplier that has submitted the lowest bid. If the lowest bid is not selected, full justifications must be given.
- (c) For every procurement the aggregate value of which is more than HK\$1,300,000, open tendering should be used.

7.1.2 As a general rule, services provided by the recipient organisation and/or the co-applicant organisation, e.g. inter-departmental charges, are not allowed to be charged to

¹⁶ For universities, please also refer to the Supplementary Note attached to this Guide.

the ITF. CIT may however consider approving the charging of such services to the ITF project account on the following basis:

- (a) prior application is made to ITC on grounds of operational efficiency, reliability and quality of services etc.;
- (b) the services are not general or administrative support in nature, such as personnel, accounting, security, cleansing, library services etc. as listed in paragraph 5.2.11(j) above. Examples of allowable services are printing and testing services. Other services should be considered on a case-by-case basis; and
- (c) the charges should only be at cost (covering basic salary plus employer's contribution to MPF and consumables/material costs) without inflation and profit elements.

7.1.3 In case an applicant organisation intends to procure goods or services from one company/organisation/individual, it has to provide details, justifications and its relationship with the company/organisation/individual in the application form for not following the open procurement process set out in paragraph 7.1.1 above. If the application is approved, subsequent approval from CIT will not be required. Where goods or services are procured from collaborating party, details should be given in Section C4 (Collaborations with Other Organisations) of the proposal.

7.1.4 All quotations and tendering documents should be kept by the recipient organisation for CIT and the Director of Audit's inspection and the retention period of these documents should be at least two years after completion of the project or termination of the project agreement, or as otherwise specified by CIT within that two-year period.

7.2 *Hiring of Project Staff*

7.2.1 The recipient organisation is required to abide by the principle of openness and competitiveness in hiring staff for the approved project.

7.3 *Title to Equipment*¹⁷

7.3.1 For projects under Tier 2 Platform Research Scheme and Tier 3, the title to equipment costing over HK\$500,000 will remain with the Government throughout the scheduled project period and for two additional years thereafter. Upon completion of the project or termination of the project agreement, the recipient organisation is required to make available for removal by the Government such equipment in which the Government retains title. However, the recipient organisation will have the right to use the equipment to carry out the project. The risk in the equipment (e.g. loss, damages, liabilities, etc.) will vest and remain with the recipient organisation upon procurement of the equipment.

7.3.2 For projects under Tier 2 Platform Research Scheme and Tier 3, unless otherwise agreed or specified by CIT, the recipient organisation has to keep all equipment costing less than or equal to HK\$500,000 purchased for the project for at least two years after project completion or termination of the project agreement. The project coordinator should make such equipment available for CIT and the Director of Audit's inspection upon request.

7.3.3 For projects under Collaborating Research Scheme, the title to all equipment procured will vest with the research institute

regardless of whether or not it is the research institute that initiates the procurement of/procures the equipment. The participating company, however, has the right to use the equipment during the project period. The participating company and its partner research institute should make the equipment available for CIT and the Director of Audit's inspection upon request within two years after project completion or termination of project agreement.

7.3.4 For projects under Company Research Scheme, the title to all equipment procured will vest with the company. The participating company should make the equipment available for CIT and the Director of Audit's inspection upon request within two years after project completion or termination of project agreement.

¹⁷ For universities, please also refer to the Supplementary Note attached to this Guide.

Summary of Major Requirements for Tier 3

PUBLICITY

8.1 *Publicity and Acknowledgement*

8.1.1 The recipient organisations of projects under Tier 2 Platform Research Scheme and Tier 3 should try to publicise the project results or any events related to the project through publications, seminars, workshops, conferences and exhibitions etc. Where appropriate, the applicant should try to generate income by charging fees for project deliverables so as to recoup wholly or partly the cost of the deliverables. It should also provide CIT with information about the project (including project title, abstract, deliverables, implementation schedule, requested ITF amount, key project staff, applicant organisation, collaborating organisation and the project results) as well as the project events, if any, so that CIT may put it on the ITF website.

8.1.2 Acknowledgement of ITF support must appear on all equipment, facilities, publicity/media events related to an ITF-funded project, as well as in publications arising from the project. The following disclaimer should also be included in any publications and media events related to an ITF-funded project:

"Any opinions, findings, conclusions or recommendations expressed in this material/event (or by members of the project team) do not reflect the views of the Government of the Hong Kong Special Administrative Region, the Innovation and Technology Commission or the Panel of Assessors for the Innovation and Technology Support Programme of the Innovation and Technology Fund."

Themes	No specific themes but the projects should be exploratory, forward-looking and innovative in nature.
Features	<p>(a) In general, project proposals falling under the technology areas of the R&D Centres may be submitted provided that they are exploratory, forward-looking and innovative in nature.</p> <p>(b) Project proposals which fall under the scope of other government funding schemes (e.g. the Health and Health Services Research Fund, the Infectious Disease Research Fund), should <u>not</u> be submitted.</p> <p>(c) Since the project proposals are expected to be more innovation and technology driven, industrial sponsorship is not mandatory but is still encouraged. Funding priority will be given to applications that have secured cash sponsorship.</p> <p>(d) Project proposals for follow-on R&D work of projects approved in previous rounds of Tier 3 invitations as well as those which are the follow-up projects to, or which leverage on the results of, other completed basic research projects (whether or not undertaken by the applicant organisation) may also be submitted.</p>
Funding Ceiling	HK\$1 million.
Project Duration	18 months or less.