



# **Enterprise Support Scheme (ESS)**

## **Funding and Administrative Guidelines for Successful Applicants**



**Innovation and Technology Commission**

## ***(1) INTRODUCTION***

- 1.1 This document (“**Guide**”) sets out the general funding and administrative guidelines for conducting research and development (“**R&D**”) projects funded under the Enterprise Support Scheme (“**ESS**”) of the Innovation and Technology Fund (“**ITF**”).
- 1.2 Details of the ITF and the ESS are available at <http://www.itf.gov.hk>. In addition to the information in this Guide, the Innovation and Technology Commission (“**ITC**”) may issue supplementary information and guidelines from time to time. Please check the ITF website to get the latest position.
- 1.3 The approval process of an application recommended by the ESS Assessment Panel for funding support consists of a number of steps. For more details on the approval process, please read the section entitled “Application Submission” at the “Frequently Asked Questions” on the ITF website.

## ***(2) PROJECT AGREEMENT AND PROJECT ACCOUNTS***

### ***2.1 Fund Agreement***

- 2.1.1 The applicant and if the application is successful, the funded project shall comply with all legislation (including the Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region).
- 2.1.2 For each project for which funding support has been approved, the recipient company has to sign a fund agreement (“**Agreement**”) with the Government and this Guide shall be deemed to form part of the Agreement. In the event of any conflict between the Agreement and this Guide, the Agreement shall prevail.
- 2.1.3 The recipient company shall comply with all the terms and conditions laid down in the Agreement, this Guide and all instructions and correspondences issued by Commissioner for Innovation and Technology (“**CIT**”) or his representatives from time to time in respect of the project.

### ***2.2 Contractual Requirement***

- 2.2.1 The Government may terminate the Agreement or withhold the payment of the ESS Fund (i.e. the Government’s contribution to the cost of a project funded under the ESS) on the occurrence of certain events, including but not limited to the following:
  - (a) The recipient company fails to progress in accordance with any of the project milestones set forth in the Implementation Schedule at Appendix I of the Agreement;
  - (b) The recipient company fails to contribute in accordance with the Funding Schedule at Appendix II of the Agreement;
  - (c) The recipient company fails to complete the project by the completion date agreed between the recipient company and the Government;
  - (d) The recipient company fails to implement the project in accordance with the budget approved by the Government;
  - (e) Any material change occurs in the composition of the project team referred to in the project proposal including any change in the appointed project coordinator or deputy project coordinator without the prior written consent of CIT;

- (f) The recipient company fails to submit any of the audited Project Accounts (as defined below), progress reports and final report in respect of the project in accordance with the Agreement;
- (g) The recipient company engages in any conduct which is, in the opinion of the Government, prejudicial to the project, including but not limited to mishandling of Project Funds (as defined below), or lack of discipline in financial management or abandoning the project in whole or in part; and
- (h) Any other grounds of termination to be agreed between the parties in the Agreement.

## 2.3 *Designated Bank Account and Interest*

- 2.3.1 The recipient company is required to open a separate risk-free interest bearing Hong Kong dollar savings bank account (“**Designated Bank Account**”) with a licensed bank registered under the Banking Ordinance (Cap.155) specifically for processing all receipts and payments of the project.
- 2.3.2 All Project Funds (including the ESS Fund and the recipient company’s matching fund) (“**Project Funds**”) and interest income must be deposited into the Designated Bank Account and all payments exclusively applied to the project for which they were paid must be paid out from the Designated Bank Account.
- 2.3.3 All Project Funds must be kept in the Designated Bank Account by the recipient company which shall, until such funds are spent in accordance with the Agreement or returned to the Government by the recipient company, hold the same as trustee for the Government.
- 2.3.4 All interest income generated from the Designated Bank Account for a project must be retained in the Designated Bank Account. No negative interest and bank charges should be charged to the Government. The recipient company is not entitled to charge to the Designated Bank Account any interest expenses or claim any compensation or relief of any nature against the Government in the event of any late or withholding of payment of the ESS Fund for whatever reason.

## 2.4 *Books and Records*

- 2.4.1 The recipient company must keep a proper and separate set of books and records (“**Project Accounts**”) for each project. The Project Accounts should be maintained in such a manner as to enable the production of Statement of Income and Expenditure (in the same format as shown in the final report to be submitted through the Innovation and Technology Commission Funding Administrative System (“**ITCFAS**”) and Balance Sheet in respect of each project. All income and expenditure of a project should be properly and timely recorded in the books of accounts.
- 2.4.2 Accrual basis of accounting should be adopted for all projects. Expenditure could only be charged to the Project Accounts 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 Agreement. All interest 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 Agreement.

- 2.4.3 Unless otherwise agreed by the Government, the books and records of the project must be kept by the recipient company for at least seven years after completion of the project or termination of the Agreement, whichever the later.
- 2.4.4 The recipient company shall ensure that CIT, the Director of Audit and their authorised representatives 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. CIT, the Director of Audit and their authorised representatives may at their absolute discretion request the recipient company to make available and/or deliver photocopies of such books and records to the Government at the recipient company's sole costs and expenses. When so requested in this connection, the recipient company will be obliged to make available all project books of accounts and records and explain to CIT, the Director of Audit and their authorised representatives 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 company in receipt of ESS Fund.
- 2.4.5 The Government reserves the right to require the recipient company to return any mis-spent amount together with interest income accrued to the Government.

## 2.5 *Auditing Requirements*

- 2.5.1 To ensure that the Project Funds have been fully and properly applied to the projects for which they were paid and expended (paid)/accrued and received/accrued in accordance with the approved project budget, this Guide, the Agreement and other instructions set for the projects, the Project Accounts shall be audited in accordance with the latest version of the "Innovation and Technology Fund – Enterprise Support Scheme Notes for Auditors of Recipient Organisations" ("**the Notes**") issued by the ESS Secretariat by independent auditor(s) who must be Certified Public Accountants/Public Accountants registered under the Professional Accountants Ordinance (Cap. 50) ("**the Auditors**").
- 2.5.2 The recipient company shall 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 Project Accounts. The engagement letter shall also specify that CIT, the Director of Audit and their authorised representatives shall have the right to communicate with the Auditors on matters concerning the audited Project Accounts and the supporting statements.
- 2.5.3 In conducting the audits, the Auditors should comply with the relevant Standards and Code of Ethics issued and updated from time to time by the Hong Kong Institute of Certified Public Accountants. The Auditors are required to express an audit opinion as to whether the recipient company and the Project Accounts have complied, in all material respects, with all the requirements set out in the Notes and to make full disclosure of any material non-compliance in the auditors' report.
- 2.5.4 The recipient company is required to make available to the Auditors all information, documents and explanations relating to the project being audited. The information and documents mainly comprise the 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.

- 2.5.5 External audit fees relating to the project and arising from compliance with the provisions of the Agreement shall be included in the approved project budget. The maximum external audit fees allowed for the audited Project Accounts<sup>(note)</sup> are set out below:

<b>Audited Account</b> (note)	<b>Maximum External Audit Fees Allowed (HK\$)</b>		
	Total Project Cost		
	< \$1 million	\$1 million to \$5 million	> \$5 million
<b>First Interim</b>	\$5,600	\$9,800	\$14,000
<b>Second Interim</b>	\$8,000	\$14,000	\$20,000
<b>Final</b>	\$8,000	\$14,000	\$20,000

*Note: Please refer to paragraph 4.3 for the requirements on the audited Project Accounts.*

## 2.6 Change Requests

- 2.6.1 An approved project must be carried out strictly in accordance with the Agreement. Subject to paragraphs 2.6.2 and 2.6.3, no modification, amendment or alteration to the Agreement shall be valid unless made in prior written approval by CIT.
- 2.6.2 Save as provided in paragraph 2.6.3, the Company may not change any item in the approved budget for the project without the prior written approval from CIT. Where such prior written approval is required, the request for approval should preferably be made electronically through the ITCFAS.
- 2.6.3 The recipient company may change the budget of items in “equipment” and “other direct costs” in the approved budget without the prior written approval of CIT provided that (a) such change does not and will unlikely result in (i) cumulative deviation of expenditure for the category (i.e. “equipment or “other direct costs”) of budgeted items that exceeds 30% of the original approved budget for the relevant category; or (ii) an increase in the total project cost or the total amount of ESS Fund requested; and (b) any virement as a result of such change and the underlying reasons must be reported in the relevant progress report(s) and final report.
- 2.6.4 As a general rule, transfer of budgeted expenditure for patent registration to other cost items is not allowed.
- 2.6.5 The Government reserves the right to require the recipient company to return any mis-spent amount together with the interest income accrued thereon to the Government.
- 2.6.6 In the event that any modification or amendment to the project deemed by CIT to be too significantly deviated from the original objective of the technology development undertaking, CIT may in his discretion terminate the project or request the recipient company to present the modified project to the Assessment Panel to facilitate the Government to determine whether the project should continue to be funded.

(3) **PROJECT EXPENDITURE**

3.1 *ITF Funding*

3.1.1 All expenditure to be covered by the Project Funds (including the ESS Fund and the recipient company's matching fund) must be exclusively used for the project and incurred within the project period, except otherwise approved by CIT. Any expenditure or part thereof which is already funded by the Government (including but not limited to any other ITF-funded project), a Government subvented body/institution or a university shall not be covered by the Project Funds. For the avoidance of doubt, no double funding is allowed for the same expenditure item or any part thereof.

3.1.2 Project Funds may be used in accordance with the Agreement for covering –

- (a) the costs of manpower employed by the recipient company specifically for carrying out the project's technical R&D work in Hong Kong (documentary proof of the manpower concerned who is lawfully employable in Hong Kong has to be provided);
- (b) new equipment procured specifically for carrying out the project; and
- (c) other direct costs which are specifically incurred for carrying out the project.

3.1.3 In general, up to 50% of the approved total project cost can be incurred outside Hong Kong. When certain R&D tasks need to be conducted outside Hong Kong, prior approval from CIT must be sought with justifications.

3.1.4 A list of allowable and disallowed expenditure items is set out as follows:

(A) Manpower

- i. Project Funds can generally be used to cover the salary of project staff who engage in technical R&D activities, including employer's mandatory contribution to the Mandatory Provident Fund (minimum mandatory contribution in force from time to time).
- ii. Specifically, Project Funds cannot be used to cover sales commissions, bonuses, contract gratuities, annual salary adjustment (including increments and promotions), general fringe benefits and allowances such as expenses on housing (including nominal rental for quarters), education, training, passage and travelling, food, medical, dental, insurance, severance pay, overtime and untaken leave, etc.
- iii. Project Funds will not cover any emolument to a person who is already on the payroll of the Government, a Government subvented body/institution, a university or another concurrent ITF-funded project. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned.
- iv. Subject to the above, the project coordinator, the deputy project coordinator and project team members may charge their efforts to the project. If only part of their working time is deployed for the project, they should charge their time spent on a pro-rata basis.

- v. In general, company shareholders/directors shall not take any form of remuneration from the Project Funds. If any shareholders/directors of the recipient company or its related company within the same group of companies are appointed as the project coordinator, the deputy project coordinator or a project team member, they should provide declarations on all their remunerated positions to CIT for approval before taking any form of remuneration from the Project Funds. CIT shall have the absolute discretion to determine whether such approval shall be given.
- vi. The recipient company is required to inform the ITC in advance whenever it hires any person to work under the project.

(B) Equipment

- i. The title to equipment for a project, including those procured with the Project Funds, will be held and maintained in Hong Kong by the recipient company.
- ii. Project Funds may be used in accordance with the Agreement for renting, procuring or repairing equipment specifically for carrying out the project.
- iii. Specifically, Project Funds cannot be used to cover –
  - charges/time cost for use or purchase of equipment owned by the recipient company or a company within the same group of companies as the recipient company;
  - depreciation/amortisation or provisions not representing actual expenses incurred; and
  - general office or information technology equipment.
- iv. Cost of new equipment for implementing the project can be charged to the Project Accounts. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the recipient company is required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Recipient company is encouraged to share the use of existing equipment within its own organisation or with other organisations to increase the utilisation.

(C) Other Direct Costs

Project Funds can be used to cover the following expenses for the project –

- outsourcing to third party technology vendor;
- consumables (an itemised breakdown of the cost and quantity should be provided);
- production of samples/prototypes (e.g. IC tape-out, PCB fabrication, MPW (Multiple Project Wafer), IC packaging) required for functional verification and not for commercial production purposes;
- industrial standards (e.g. product safety) and compliance test (e.g. UL, CE, FCC) conducted by certified laboratories;
- the necessary testing and certification to certify the functionality as described in the application (e.g. functional test, reliability test, failure analysis);
- industrial design;

- pre-clinical study and clinical trial;
- patent registration fee for functional inventions directly relating to the project may also be included in the budget. The above notwithstanding, the patent registration fee charged to the Project Accounts should not exceed HK\$250,000;
- audit fees for the audited Project Accounts. The fee schedule is set out in paragraph 2.5.5; and
- subject to the absolute discretion of CIT, Project Funds may be used to cover expenses for market research.

#### Disallowed Cost Items

Project Funds cannot be used to cover the following expenses for the project -

- building facilities (including office, laboratory, accommodation) - rates, rental, renovation, and operation, repair and maintenance expenses;
- repair and maintenance expenses of equipment;
- costs of setting up office or forming association/consortium;
- utilities - charges for electricity, gas, water, telephone and fax;
- transport - shuttle bus services and home to workplace travelling expenses;
- costs arising from conference calls/video conferencing/exchange of documents/overseas visit by project team members, consultant(s) or advisor(s);
- general administration and office expenses;
- staff-related costs - provident fund handling charges, staff training and development costs and staff facilities;
- entertainment expenses, and any prizes, either in the form of cash or other types of souvenirs;
- advertisement;
- organisation of trade missions and participation fees at study/trade missions for individuals/companies;
- charges for non-R&D services (e.g. accounting, personnel, procurement, library, security, cleansing, legal, bank, and central and departmental administrative support, etc.) provided by the recipient company or its contractors/agents;
- costs related to prior/subsequent year(s)/period(s) adjustment(s); and
- capital financing expenses, e.g. mortgage and interest on loans/overdrafts.

3.1.5 The list of disallowed cost items for manpower, equipment and other direct costs set out above is not exhaustive. The recipient company should consult ITC if it has any doubts about whether an item could be charged to the Project Accounts.

#### **(4) PROJECT MONITORING AND DISBURSEMENT OF ESS FUND**

##### *4.1 Disbursement of ESS Fund*

4.1.1 ESS Fund will normally be made available to the recipient company in half-yearly instalments based on an approved cashflow of the project.

4.1.2 Normally, instalments will be made available upon confirmation of the availability of the recipient company's contribution. For the first instalment, it will be effected upon receipt of the first interim audited Project Accounts showing the entire amount of the first instalment of the recipient company's contribution has been used up.

- 4.1.3 For new applications submitted to the ITC via the ITCFAS on or after 1 February 2020, the recipient company may request receiving a portion of the ESS Fund in advance (“**Advance Payment**”). The amount of Advance Payment will be up to 50% of the approved ITF matching fund for the first 6 months or up to \$500,000, whichever is lower. The Advance Payment will be disbursed upon receipt of the necessary proof that the recipient company has made contribution of the same amount on a matching basis. The Advance Payment is considered as part of the first instalment.
- 4.1.4 Unless circumstances justify the otherwise, subsequent instalments (except the last instalment) of ESS Fund will be disbursed only if the recipient company has provided evidence showing due contribution of the matching fund by the recipient company to the project and complied with all other requirements in accordance with the Agreement to the satisfaction of CIT.
- 4.1.5 The Government reserves the right to withhold any further payment to the project on the occurrence of certain events including but not limited to the following:
- (a) any of the events as set out in paragraph 2.2.1 above; and
  - (b) in the opinion of the Government a large amount of the Project Funds remains unspent in the Designated Bank Account.
- 4.1.6 Unless otherwise agreed by the Government, no less than 10% of the Government’s contribution will be retained at the last instalment. The last instalment of the ESS Fund will be disbursed only after CIT has accepted the final report and audited Project Accounts of the completed project. The amount of the last instalment is subject to adjustment to ensure that the total amount of the ESS Fund disbursed will not be more than the Government's pro-rata share of the actual expenditure of the project as indicated in the audited Project Accounts of the completed project accepted by CIT.
- 4.2 *Progress and Final Reports*
- 4.2.1 All approved projects will be monitored by CIT against the project milestones stated in the project proposal. The recipient company shall submit progress reports until project completion (or, in the case of early termination of the project for whatever reason, the date of the termination of the Agreement) in accordance with the Reporting Schedule as set out in the Agreement. All progress reports should be prepared in the standard format stipulated by CIT and submitted through ITCFAS.
- 4.2.2 Upon request by CIT, the recipient company shall provide timely clarification and/or additional information to substantiate the content of the progress reports. Upon request by the Government, the recipient company shall organise visits or meetings for CIT or his representatives to examine the progress of the project.
- 4.2.3 Within two months from the project completion date (or, in the case of early termination of the project for whatever reason, the date of the termination of the Agreement), the recipient company shall submit a complete final report of the project covering the period between project commencement and project completion date (or the date of termination of the Agreement, as the case may be). The final report should be prepared in the standard format stipulated by CIT and submitted through ITCFAS.

4.2.4 Upon request by CIT, the recipient company shall provide timely clarification and/or additional information to substantiate the content of the final report.

#### 4.3 *Audited Project Accounts*

4.3.1 The recipient company shall submit to CIT audited Project Accounts. The audited Project Accounts shall be prepared on accrual basis of accounting for each project. The audited Project Accounts shall comprise Statement of Income and Expenditure, Balance Sheet, Notes to the Accounts and Auditors' Report.

4.3.2 The recipient company shall submit the first interim audited Project Accounts within one month from the cutoff date of the first interim audited Project Accounts.

4.3.3 For projects that exceed 18 months, the second interim audited Project Accounts covering the first 12 months from the project commencement date has to be submitted within one month from the cutoff date of the second interim audited Project Accounts.

4.3.4 The first interim audited Project Accounts is optional if the cutoff dates for both interim audited Project Accounts are less than 3 months apart. However, if the recipient company opts not to submit first interim audited Project Accounts within the deadline set out in Clause 4.3.2, the disbursement of the first instalment of the Government's contribution will, subject to other requirements in this Guide, only be effected upon submission of the second audited Project Accounts.

4.3.5 The recipient company shall submit to CIT the final audited Project Accounts covering the period from the project commencement date to project completion date (or, in the case of early termination of the project for whatever reason, the termination date of the Agreement) within three months from the date of project completion (or the date of the termination of the Agreement, as the case may be) if the total project cost involved is HK\$1 million or more, and within one month if it is below HK\$1 million.

4.3.6 All income received/receivable and expenditure incurred (paid or payable) for the project during the reporting period should be fully and properly accounted for in accordance with the Agreement, this Guide and all instructions and correspondences issued by CIT or his representatives in respect of the project and should be the same as recorded in the books of accounts for that reporting period. The interim and final audited Project Accounts should be properly prepared from and in agreement with the books of accounts of the project.

4.3.7 Any record of mishandling of public funds or lack of discipline in financial management or non-compliance with the terms and conditions of the Agreement, this Guide and all instructions and correspondences issued by CIT or his representatives in respect of the project is a factor which the Assessment Panel will take into account in considering future applications from the same applicant.

#### 4.4 *Return of Residual Funds*

4.4.1 Upon completion of the project or termination of the Agreement (whichever the earlier), the recipient company shall return to the Government all residual Project Funds and the interest income remaining in the Designated Bank Account on a pro-rata basis having regard to their respective contribution to the Project Funds within one month after the acceptance in writing of the final report and audited

Project Accounts by CIT. The Government may take such action as may be deemed necessary in case of unreasonable delay in the return of residual funds with late payment penalty thereon to the Government.

#### 4.5 *Post-Project Evaluation Report*

- 4.5.1 Upon request by CIT, the recipient company shall submit the post-project evaluation report within 24 months after the project completion date, in the format to be provided by CIT.

### (5) **BENEFIT-SHARING**

- 5.1 If the recipient company has agreed a benefit-sharing arrangement with the Government, it will be required to comply with the relevant obligations as specified in the Agreement.

### (6) **PROCUREMENT AND RECRUITMENT**

#### 6.1 *Procurement Procedures*

- 6.1.1 The recipient company shall adhere to the principles of openness, fairness and value for money in the procurements of all equipment, goods and services of any value in relation to or for the purpose of the project. The recipient company shall ensure that such procurements are made on an open, arm's length and competitive basis, in accordance with prudent commercial principles and only from suppliers or service providers who are not Restricted Persons as defined in both the Guide to Filling in the Application Form for the ESS and the Agreement, unless prior approval in writing has been granted by the Government. Without prejudice to the generality of the foregoing, the recipient company must comply with the procurement procedures as specified in the Agreement, including but not limited to the following –

Aggregate value of each procurement	Requirement
Above \$5,000 to \$50,000	Written quotations from at least two suppliers
Above \$50,000 to \$1,400,000 <i>(note)</i>	Written quotations from at least five suppliers
Above \$1,400,000 <i>(note)</i>	Open tender

*Note: With effect from 29 January 2018, the upper quotation limit of procurement for goods and services has been revised from \$1,430,000 to \$1,400,000. It applies to applications first submitted through the ITCFAS on or after this date. For applications submitted to the ITC before 29 January 2018, the upper quotation limit of \$1,430,000 prevails.*

- 6.1.2 In case the recipient company intends to procure goods or services from one company/organisation/individual, it has to provide details, sufficient justifications and its relationship with the recipient company/organisation/individual for not following the open procurement process set out above. Prior approval from CIT is required.

## 6.2 *Hiring of Project Staff*

- 6.2.1 The recipient company shall abide by the principle of openness and competitiveness in hiring staff for the approved project. It is required to inform the ITC in advance whenever it hires any person to work under the project.

## **(7) DISSEMINATION OF R&D RESULTS AND ACKNOWLEDGEMENT**

- 7.1 Acknowledgement of ESS support must appear on all equipment, facilities, publicity/media events related to an ESS-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 ESS-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 ESS Assessment Panel."*

## **(8) PROJECT COMPLETION**

- 8.1 After the completion of the project, the recipient company still has the obligation to notify the ESS Secretariat on any change of contact information, including address, telephone number, fax and/or email of the recipient company.
- 8.2 The recipient company shall also file a completed "Post Project Evaluation Report" to the ESS Secretariat.

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