

**A Consultation Paper on the Proposed  
Relaxation Measures of  
University-Industry Collaboration  
Programme under the Innovation and  
Technology Fund**

**Innovation and Technology Commission**

**October 2007**

## **Proposed Relaxation Measure of University-Industry Collaboration Programme under the Innovation and Technology Fund**

### **Purpose**

The Financial Secretary announced in the 2007 Budget that the Administration intends to relax the restrictions of the University-Industry Collaboration Programme (UICP) so as to provide further impetus to the development of applied research. This consultation paper invites views on the proposed relaxation of the geographical requirements of the programme.

### **Background**

2. The Innovation and Technology Fund (ITF) was launched in 1999 to finance projects that contribute to innovation or technology upgrading in industry, as well as those essential to the development of industry. UICP is one of the key funding programmes under the ITF. The programme aims to stimulate private sector interest in research and development (R&D) through leveraging on the knowledge and resources of local universities.

### **Overview**

3. The UICP was established to encourage enterprises and local universities to collaborate and undertake applied R&D so as to accumulate human capital through the process. The current mode of operation of the UICP is as follows –

- (a) a private company incorporated in Hong Kong and with substantive connections with Hong Kong, in conjunction with a local university, may apply for UICP grants;
- (b) the majority of the R&D to be undertaken has to be conducted by the concerned local university in Hong Kong;

- (c) the participating company has to bear no less than 50% of the project cost in cash; and
- (d) disbursement of the UICP grant is subject to the applicant company having disbursed its share to the concerned local university.

4. Since the establishment of UICP, 258 UICP applications have been received. By the end of July 2007, 165 projects have been given funding support, involving a total commitment of \$186.5 million.

5. Details on the modus operandi of the UICP and the statistical figures of the approved projects are set out in the Annexes -

**Annex A** - Current Mode of Operation of UICP;

**Annex B** - Statistics of Applications Received and Approved Projects (up to 31 July 2007); and

**Annex C** – Statistics of Approved Projects among different Technology Areas (as at 31 July 2007)

### **Proposed Relaxation Measures**

6. UICP is a useful tool to foster cooperation between the commercial sector and the academia and in turn brings benefit to both parties. To provide further impetus to applied R&D, the Administration proposes that the geographical requirements of Matching Grant for Joint Research Scheme<sup>1</sup> under UICP be relaxed by -

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<sup>1</sup> There are three Schemes under UICP with different purposes and beneficiaries, namely Teaching Company Scheme; Matching Grant for Joint Research and Industrial Research Chair Scheme. Details of each Scheme are outlined in Annex A. The proposals set out in this paper do not apply to the Teaching Company Scheme and Industrial Research Chair Scheme.

- (a) allowing the applicant company to co-operate with local universities or non-local universities to undertake the R&D work of a project; and
- (b) allowing a substantial part of the R&D work of a project to be conducted outside Hong Kong, where appropriate.

7. Under the proposals, local private companies will have a wider choice of their collaborating partners. Apart from local universities, part of the R&D work of a project may be undertaken by universities in the Mainland and overseas, which may own background intellectual property (IP) and technical expertise that is not available locally. The new regime will give more flexibility to the local companies to leverage on the expertise of non-local universities and thereby enhance the attractiveness and effectiveness of the programme.

8. Whilst local universities will continue to play an important role in the R&D projects, the participation of non-local universities in the project will also bring R&D merits to the local enterprise and academia through broadening their scientific and technology knowledge base and networks. The participating companies will be able to better adapt to new technological requirements and increase their competitiveness in the ever changing market. The new regime will also enhance the accumulation of human capital in applied research through the interaction between the local and non-local universities, and may encourage non-local universities to engage in more technology transfer activities with local companies, thereby strengthening Hong Kong's position as a regional technology servicing hub.

9. To encourage the application of knowledge developed from UICP projects to the industries in Hong Kong and the Pearl River Delta (PRD) region, when considering project applications, funding priority will be given to those projects that can contribute substantially to innovation and technology upgrading in the local economy and the PRD region.

### **Monitoring Mechanism**

10. We propose the following monitoring mechanism to be applied to projects involving non-local R&D activities under the relaxed regime -

(a) The eligibility criteria for the applicant company will remain unchanged, i.e. only locally incorporated company with substantial connection to Hong Kong will be eligible to apply under the Scheme. This will deter non-local companies from merely registering in Hong Kong for the purpose of applying for UICP funding, without doing any substantial business in Hong Kong. In demonstrating a “substantial connection” to Hong Kong, consideration will be given to, inter alia, the following factors -

(i) whether the local applicant company has a significant proportion of its research, design, development, production or management activities located in Hong Kong;

(ii) whether the local applicant company has engaged in substantive business operations for 3 years or more;

(iii) any overseas company, representative office, liaison office, “mail box company” and company specifically established for providing certain goods or services to its parent company, though registered in Hong Kong, will not be regarded as companies with substantial connections to Hong Kong.

(b) The Innovation and Technology Commission (ITC) will conduct visits to the local applicant company, if necessary, during the project vetting stage for a better understanding and assessment of the eligibility and capability of the applicant company.

(c) ITC will sign a legally binding agreement with the local applicant company and hold it responsible for compliance with ITF requirements and for indemnifying the Government in the event of misuse of fund. Instead of the collaborating universities (as under the existing arrangement where the collaborating universities are local ones), the project coordinator, who is responsible for the overall coordination of the project, should be the local applicant company.

(d) The ITF funding and the company's contribution shall be paid into a risk-free interest-bearing account held by the local applicant company specifically for processing all receipts and payments of the UICP project.

(e) The local applicant company will need to submit progress reports, incorporating the financial position of the project and audited accounts, to ITC. The ITF funds will be disbursed to the local applicant company in arrears, upon the prescribed milestones having been completed satisfactorily.

(f) ITC will organise visits to or meetings with the local applicant company at regular intervals to examine the progress of the project. The applicant company will be responsible for making available to the ITC the necessary information on the research project from both the local and the non-local universities.

## **Financial Implications**

11. The above proposals are expected to encourage more companies to apply for UICP funding. However, it is difficult to have an accurate estimate of the financial implication at this stage because the amount of actual funds approved would depend on the response of the industry and quality of the proposals.

12. The average funding approved under UICP for the period 2000-2006 is \$26.17 million per year. If we take this as the basis and assume that funding approval would increase by 50%, the estimated financial implication for the next five years will be around \$70 million ( $\$26.17 \text{ million} \times 50\% \times 5$ ). On this basis, we estimate that the ITF should have sufficient funds to cover additional funding in this order in the next five years.

13. In implementing the proposal, additional manpower requirements and departmental costs may be incurred. ITC will try to absorb these additional expenses within the existing resources. In the light of actual operational experience, the financial position will be reviewed in two years' time.

## **Implementation**

14. The Administration plans to implement the above proposal in early 2008.

## **Invitation for Comments**

15. The Administration would like to seek interested parties' views on the proposed relaxation measures. Interested parties are invited to send their views **before 4 November 2007** to the Innovation and Technology Commission by mail, fax or e-mail

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16. This consultation paper is available at the following websites:  
<http://www.itf.gov.hk/eng/Consultation.asp> (for English version),  
<http://www.itf.gov.hk/tc/Consultation.asp> (for Traditional Chinese version) and  
<http://www4.itf.gov.hk/unigb/www.itf.gov.hk/tc/Consultation.asp> (for Simplified Chinese version).

Innovation and Technology Commission

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## **University-Industry Collaboration Programme**

University-Industry Collaboration Programme (UICP) aims to increase the added value, productivity and competitiveness of our economic activities. There are three schemes under this programme -

### ***(a) Teaching Company Scheme***

The Teaching Company Scheme aims to take on graduate research studies for specific research and development (R&D) projects with a finite duration. The university will provide teaching guidance for the students in handling the projects. The participating companies and Innovation and Technology Commission Fund will each bear half of the costs for hiring the students.

### ***(b) Matching Grant for Joint Research***

The aim of the Matching Grant for Joint Research is to foster private enterprise to collaborate with universities in proprietary R&D projects. The university's researchers should be the core project team members and should conduct a major part of the R&D work of the project. In principle, the intellectual property rights of the project results will rest with the applicant company. The participating company is required to bear half of the costs of the projects.

### ***(c) Industrial Research Chair Scheme.***

The objective of the Industrial Research Chair Scheme is to assist universities and industry to develop research efforts in technology fields that are not yet developed in Hong Kong but for which there is good development potential in the longer term. The project should be in the natural science and engineering field. Funding will be provided on a matching basis which could also cover the salary of the chairholder for a finite duration. This chairholder will mainly conduct research and will accept a light teaching load.

## **Current Mode of Operation**

2. Under the current mode of operation of the UICP, the Government enters into contract agreement with both the University and the applicant company. The form of funding support is on a matching basis, subject to cash contribution by the applicant company amounting to no less than 50% of the project cost. The disbursement of the UICP grant is subject to the applicant company having disbursed its share to the concerned local university.

3. The ITF funding and the company's contribution shall be paid into a risk-free interest bearing account under the University's name specifically for processing all receipts and payments of the ITF projects. The University shall assign a unique account code specifically for processing all income and expenditure relating to each ITF project.

4. All ITF funding and government share of the interest generated shall be held by the University as trustee for the Government. The latter and any residual ITF funding shall be paid over to the Government on the completion or termination of the ITF project.

5. The participating company and its partner university have to jointly submit ITC half-yearly progress reports as well as annual/final audited accounts for each project.

**Innovation and Technology Fund -  
University-Industry Collaboration Programme (UICP)  
Statistics of Applications Received and Approved Projects  
(As at 31 July 2007)**

Year	Industrial Research Chair Scheme				Matching Grant for Joint Research Scheme				Teaching Company Scheme				Total			
	Applications Received		Projects Approved		Applications Received		Projects Approved		Applications Received		Projects Approved		Applications Received		Projects Approved	
	Number	Requested Amount (\$M)	Number	Approved Amount (\$M)	Number	Requested Amount (\$M)	Number	Approved Amount (\$M)	Number	Requested Amount (\$M)	Number	Approved Amount (\$M)	Number	Requested Amount (\$M)	Number	Approved Amount (\$M)
1999	0	0.0	0	0.0	2	5.0	0	0.0	0	0.0	0	0.0	2	5.0	0	0.0
2000	2	3.2	2	2.9	46	159.4	28	59.4	15	3.8	10	2.2	63	166.4	40	64.5
2001	1	0.6	1	0.6	27	58.7	16	29.9	16	2.9	14	2.4	44	62.2	31	32.9
2002	0	0.0	0	0.0	21	53.5	15	19.5	12	2.2	10	1.9	33	55.7	25	21.4
2003	0	0.0	0	0.0	23	64.1	18	44.5	13	2.2	10	1.8	36	66.3	28	46.3
2004	0	0.0	0	0.0	31	49.5	10	9.2	16	2.9	12	2.2	47	52.4	22	11.4
2005	0	0.0	0	0.0	6	13.1	6	5.2	11	1.8	6	0.9	17	14.9	12	6.1
2006	0	0.0	0	0.0	3	5.1	0	0.0	6	1.0	3	0.5	9	6.1	3	0.5
2007*	0	0.0	0	0.0	3	4.3	1	2.8	4	0.7	3	0.5	7	5.0	4	3.3
<b>Total</b>	<b>3</b>	<b>3.8</b>	<b>3</b>	<b>3.6</b>	<b>162</b>	<b>412.5</b>	<b>94</b>	<b>170.4</b>	<b>93</b>	<b>17.6</b>	<b>68</b>	<b>12.5</b>	<b>258</b>	<b>433.9</b>	<b>165</b>	<b>186.5</b>

\*Notes: Up to 31st July 2007

**Innovation and Technology Fund -  
University-Industry Collaboration Programme (UICP)  
Statistics of Approved Projects among different Technology Areas  
(As at 31 July 2007)**

Technology Area	Projects Approved	
	Approved Number	Approved Amount (\$'000)
Biotechnology	19	30,504.9
Chinese Medicine	15	26,897.3
Electrical and Electronics	35	31,326.7
Environmental Technology	8	19,603.2
Information Technology	42	49,150.1
Manufacturing Technology	34	20,827.9
Materials Science	11	6,642.0
Nanotechnology	1	1,500.0
<b>Total</b>	<b>165</b>	<b>186,452.0</b>

**UICP Statistics (Among Different Technology Areas)**

