

# **Guide to the Innovation and Technology Fund Volume IV** **Small Entrepreneur Research Assistance Programme**

## **Chapter I**

### **INTRODUCTION**

- 1.1 The Innovation and Technology Fund (ITF) has four programmes which are designed for different purposes. This is Volume Four of the *Guide to the Innovation and Technology Fund* (Guide) and provides details of one of the ITF programmes - the **Small Entrepreneur Research Assistance Programme (SERAP)**.
- 1.2 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.
- 1.3 SERAP is a technology entrepreneur fund with an aim to provide pre-venture capital funding on a matching basis to small, technology based and entrepreneur driven companies to undertake projects that:
  - (a) have innovative and technological content (even if only in the conceptual stage); and
  - (b) have a reasonable chance of successful development of a new product, process or service that can be brought to the market.

SERAP is not for general business plans on improvement of production/operational process (e.g. investment on equipment, automation facilities or IT facilities), general business financing, staff training or innovative business proposals which have no technology content (e.g. setting up of theme-restaurant).
- 1.4 SERAP is administered by the SERAP Secretariat under the Innovation and Technology Commission (ITC), the Government of the Hong Kong Special Administrative Region located at 21/F, West Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong (Tel: (852) 3655 5847; Fax: (852) 2199 7004; E-mail: [serap@itc.gov.hk](mailto:serap@itc.gov.hk)). Any project that meets the objectives and the eligibility criteria of SERAP has to be submitted to the SERAP Secretariat electronically through the Innovation and Technology Commission Funding Administrative System (ITCFAS). For details, please visit <http://www.itf.gov.hk>.
- 1.5 Applications for SERAP are open all year round. The SERAP Project Assessment Panel (Panel) normally meets every month to consider applications. For details on the vetting and assessment procedures, please refer to Chapter III.
- 1.6 This Guide will give you the details of the funding support available under SERAP, the eligibility criteria, the application procedures, vetting and assessment procedures, and the rules that need to be followed if an application is approved. Please read this Guide carefully before you apply for funding support under SERAP.

## **Chapter II**

### ***GENERAL FEATURES OF SERAP***

#### **2.1 *Who are eligible to apply?***

2.1.1 A company will be eligible to apply if:

- (a) it is incorporated in Hong Kong under the Companies Ordinance (Cap. 32);
- (b) it has less than 100 employees in Hong Kong;
- (c) it is not a large company<sup>1</sup> or a subsidiary of or significantly owned/controlled by a large company;
- (d) it is at pre-venture capital stage; and
- (e) it has substantial connection to Hong Kong which means that it should have a significant proportion of its research, design, development and management activities located in Hong Kong.

#### **2.2 *Programme Structure***

2.2.1 Projects funded by SERAP will have to be completed within 2 years to take the project up to the pre-market launch stage. Subsequent work on commercialization will not be funded.

#### **2.3 *Form of Funding Support***

2.3.1 Government contribution to each project will not exceed HK\$4 million.

2.3.2 Funding support will be provided on a dollar-for-dollar matching basis. The recipient company has to contribute no less than 50% of the total approved project cost. The matching contribution from the recipient company is expected to be in cash. Only in exceptional cases would manpower contribution be considered.

2.3.3 For projects for which funding support is recommended by the Panel, an interest-free loan may, in very exceptional cases, be available if the recipient company is unable to come up with its part of matching contribution. For these cases, a separate loan agreement will have to be signed between the recipient company and the Government. The loan will have to be repaid after completion/termination of the project.

2.3.4 SERAP Fund will normally be made available to the recipient company by quarterly instalments on an estimated cashflow basis, or according to other disbursement schedule as determined by

---

<sup>1</sup> A company that meets one of the following criteria:

- i. A public company;
- ii. A positive cashflow generated from operating activities in the ordinary and usual course of business of at least HK\$20 million in aggregate for the two most recent financial years; or
- iii. Has a market cap (or company asset) of at least HK\$100 million

the SERAP Secretariat against satisfactory progress of the project and production of evidence showing due contribution of the recipient company's matching funds to the project.

2.3.5 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 *Recoupment of SERAP Fund***

2.4.1 SERAP Fund is to be recouped from project income and/or follow-on investments. In general, 5% of the gross revenue and 10% of follow-on investments from third parties is to be recouped until the Government contribution has been fully recouped.

2.4.2 The recipient company has to report and submit the relevant documents to the SERAP Secretariat on any project income and/or follow-on investments. Please refer to paragraph 6.6 of Chapter VI for documents to be submitted for recoupment purpose.

2.4.3 Royalty payment derived from gross revenue shall be made to the Government on completion of the project within one month from each due date of the report(s) mentioned in paragraph 6.6.2, whereas those derived from follow-on investments shall be made to the Government within two months upon receipt of the investment throughout the entire project period and on completion of the project.

2.4.4 There will be late payment penalty of 5% on all sums due and unpaid. If the monies owed to the Government remain outstanding for more than 6 months, a further penalty of 10% shall impose on all sums due and unpaid. If the monies owed to the Government remain outstanding for more than 12 months, a further penalty of 15% shall impose on all sums due and unpaid. For clarity, penalty shall not be counted as funds recouped. CIT may take such action as may be deemed necessary in case of unreasonable delay in the return of royalty payment to the Government. Any variation to the recoupment formula is subject to negotiation.

## **2.5 *Application Procedures***

2.5.1 Applications should be submitted electronically through ITCFAS at the ITF website <http://www.itf.gov.hk>. The applicant is required to register its organization and the relevant personnel with the ITCFAS prior to submitting the application proposal through the ITCFAS. Thereafter, application form can be downloaded from the ITCFAS. All sections of which have to be completed with supporting documents wherever required. Before filling in an application form, please read this Guide and the Notes embedded in the application form. No application fee will be charged. Acknowledgment will be sent to the applicant upon receipt of the application by the SERAP Secretariat.

2.5.2 Unless on the request of the SERAP Secretariat, supplementary information provided after submission of an application will not be accepted and will not form part of the application.

## Chapter III

### ***VETTING AND ASSESSMENT PROCEDURES***

#### ***3.1 Vetting Procedures***

- 3.1.1 Upon receipt of an application, the SERAP Secretariat will arrange a meeting with the applicant and/or conduct visit(s) to the applicant's company to seek clarification or supplementary information from the applicant. Discussion and opinion/comments made during the meeting and/or visit(s) does not constitute any commitment, promise and agreement on the part of the Government and the Panel concerning the application.
- 3.1.2 Where necessary, comments and advice on individual application may be sought from outside experts. The application together with other supporting documents will be submitted to the Panel for consideration. The Panel is chaired by CIT and made up of about three assessors drawn from a pool of assessors which comprises technologists, professionals, academics and venture capitalists. The membership of the Panel is available at the website <http://www.itf.gov.hk>. There are generally regular Panel meetings every month to consider applications.
- 3.1.3 Project team members may be required to attend the Panel meeting to present their projects to and answer questions from assessors. The Panel will form their recommendations on the application.
- 3.1.4 On the basis of the advice of the Panel, the SERAP Secretariat will negotiate with the successful applicants on the terms and conditions for funding, including but not limited to the budget (covering matching contribution arrangement), fund disbursement schedule and milestones for the project. Upon CIT's approval, a Fund Agreement (Agreement) will be signed between the Government and the recipient company. Thereafter, SERAP Fund will be released in accordance with the terms and conditions of the Agreement. For details of disbursement of SERAP Fund, please refer to paragraph 6.2 of Chapter VI.

#### ***3.2 Vetting Criteria***

- 3.2.1 Funding support will be provided if the Panel is satisfied with:
- (a) the innovative and technological contents of the project;
  - (b) the likely commercial potential of the proposed project deliverables; and
  - (c) the capability and level of commitment of the project team.
- 3.2.2 Funding support may be provided to 'Proof-of-concept' projects (e.g. exploration of technology or idea in the early conceptual stage), provided that:
- (a) the idea is innovative in terms of technology enabling;
  - (b) reasonable scientific and technological evidence and groundwork is available to prove the likely feasibility of the concept;
  - (c) a clear project development path is available;

- (d) the concept, if successfully developed, will likely lead to development of products/processes/services with good market potential and commercial values within reasonable timeframe;
- (e) applicant company is formed or be able to form a competent project team with the relevant technology know-how to undertake the project; and
- (f) the project deliverable should include a prototype demonstrating proof of the concept in question.

3.2.3 Normally, no more than three concurrent projects per applicant would be supported by SERAP at a particular point of time.

### **3.3 *Avoidance of Conflict of Interest***

3.3.1. To avoid conflict of interest, members of the Panel who are directly or indirectly related to or have a personal interest in an application will be required to leave the meeting or refrain from the discussion of that application.

### **3.4 *Notification of Results***

3.4.1 The SERAP Secretariat will, under normal circumstances, notify the applicant of an assessment result in writing within 50 clear working days from the receipt of full information related to an application.

3.4.2 For projects for which funding support is recommended by the Panel, the SERAP Secretariat will issue an approval-in-principle letter to the applicant and the applicant may be required to revise the project proposal via ITCFAS and submit other documents as deemed necessary. The applicant's submissions should be prepared with due account of the comments of the Panel and the SERAP Secretariat, and the feasibility of implementing the project according to the original schedule. Subject to further vetting by the SERAP Secretariat, the above documents, together with other necessary materials, will be formally approved and appended to the Agreement.

3.4.3 The in-principle approval granted to an application is subject to an expiry date of two months upon notification to the applicant by the SERAP Secretariat. If the applicant fails to provide the required information in paragraph 3.4.2 above before the expiry date and cannot provide valid reason for the delay, the SERAP Secretariat reserves the right to consider the applicant as withdrawing the application and cease processing the application further.

### **3.5 *Withdrawals***

3.5.1 The applicant can write to the SERAP Secretariat to withdraw an application at any time before the Agreement is signed between the Government and the applicant.

3.5.2 If the applicant wishes to abandon the project and/or terminate the Agreement after the Agreement has been signed, the applicant has to seek prior approval of CIT. CIT reserves the right to demand full repayment of Government contribution disbursed to the applicant.

### **3.6 *Deferral***

3.6.1 The applicant can write to the SERAP Secretariat to defer an application at any time before the

application has been considered by the Panel.

3.6.2 Projects deferring for more than six months will be considered as being withdrawn and the SERAP Secretariat will cease processing the application further.

### **3.7 Resubmission**

3.7.1 A declined application may be resubmitted only if it has been revised substantially or if it has been able to produce additional information to justify the resubmission. 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.

### **3.8 Returns**

3.8.1 Applications will be returned if they are submitted:

- (a) not via the ITCFAS;
- (b) by ineligible organizations; or
- (c) if they have been declined previously but have not been revised in accordance with paragraph 3.7 above.

## **Chapter IV**

### ***FUND AGREEMENT AND PROJECT ACCOUNT***

#### ***4.1 Contractual Requirement***

- 4.1.1 For each project for which funding support has been approved, the recipient company has to sign an agreement with the Government and comply with all the terms and conditions laid down in the Agreement, this Guide and all instructions and correspondences issued by CIT from time to time in respect of the project.
- 4.1.2 If a loan is given, a separate loan agreement will have to be signed between the recipient company and the Government.

#### ***4.2 Separate Account and Interest***

- 4.2.1 For each project for which funding support has been approved, the recipient company 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 a project. All project funds (including the SERAP Fund, the recipient company's matching contribution, and interest income) 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 should be kept in the project bank account by the company who should, until such funds are spent (paid) in accordance with the compliance requirements as specified in paragraph 4.1.1 above/returned to the Government by the recipient company, hold the same as trustee for the Government.
- 4.2.2 All interest income generated from the project bank account for a project has to be credited back to the project bank account. No negative interest and bank charges should be charged to the Government. Interest income generated from the SERAP Fund should not be used and should be returned to the Government upon completion of the project or termination of the Agreement. For details on return of residual funds, please refer to paragraph 6.5 of Chapter VI. The recipient company is 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 SERAP Fund for whatsoever reason.
- 4.2.3 The recipient company 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 company is also 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 (in the same format as shown in the final report to be submitted through the 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.
- 4.3.2 Accrual basis of accounting should be adopted for all projects. 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 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.

4.3.3 The books and records of the project should be kept by the recipient company for at least seven years after completion of the project or termination of the Agreement, or as otherwise specified by CIT within that seven-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 company to make available and/or deliver photocopies of such record to the Government at its 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 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 company in receipt of SERAP Fund. CIT reserves the right to require the recipient companies to return mis-spent amount together with interest income accrued to the Government.

#### **4.4 *Submission of Accounts***

4.4.1 The recipient company has to submit to the SERAP Secretariat accounts of all income and expenditure as part of its progress/final reports as well as interim, if necessary, and final audited accounts prepared on accrual basis of accounting for each project. The audited accounts should comprise Statement of Income and Expenditure, Balance Sheet, Notes to the Accounts and Auditors' Report.

4.4.2 Final audited accounts covering the period from project commencement date to project completion date or termination date of the Agreement should be submitted within three months from the completion date or termination date of the Agreement if the total project cost involved is HK\$1 million or more, and within one month if it is below HK\$1 million.

4.4.3 For projects that exceed 18 months, an interim audited account covering the first 12 months from the project commencement date has to be submitted within one month from the cutoff date of interim audit of the project.

4.4.4 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 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 accounts of a project should be properly prepared from and in agreement with the books of accounts of the project.

4.4.5 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 in respect of the project is a factor which the Panel will take into account in considering future applications from the same applicant.

## **4.5 Auditing Requirements**

- 4.5.1 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 terms and conditions of the Agreement and other instructions set for the projects, the interim and final accounts should be audited in accordance with the latest version of the Notes for Auditors of Recipient Organisations (the Notes) issued by the ITF Secretariat by an independent auditors who must be Certified Public Accountants/Public Accountants registered under the Professional Accountants Ordinance (Cap. 50) (the Auditors).
- 4.5.2 The recipient company 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 interim/final accounts of each project. The engagement letter should also specify that CIT, the Director of Audit and their authorized representatives should have the right to communicate with the Auditors on matters concerning the interim/final accounts and the supporting statements.
- 4.5.3 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 company and the interim/final accounts of the project 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.
- 4.5.4 Recipient companies are 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.
- 4.5.5 External audit fees relating to the project and arising from compliance with the provisions of the Agreement have to be included in the budget. The maximum funding support allowed for an 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***

- 5.1.1 An approved project is required to be carried out strictly in accordance with the Agreement and the documents appended to the Agreement. Any modification, amendment or alteration to the project or the Agreement, including but not limited to change of the project commencement or completion dates, key project staff (including project coordinator and deputy project coordinator) or key equipment, scope, methodology, budget or cashflow projection, will require prior specific written approval by CIT.
- 5.1.2 The project coordinator should submit to the SERAP Secretariat of the change request(s) well in advance 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 Agreement, this Guide and other instructions set for the projects, liaising with and answering all enquiries/requests raised by CIT and the SERAP Secretariat for information and clarification on all aspects of the project, and attending progress meetings on the project.
- 5.1.3 In the event that modification or amendment to the project deem too significantly diverted from the original objective of the technology development undertaking, CIT may in his/her discretion terminate the project or request the company to present the modified project to the Panel in a view for the Government to determine whether the project should be continued or terminated.
- 5.1.4 Approval will normally be given to the actual expenditure for any individual item that exceeds 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 SERAP funding approved and that all expenditure follows the relevant requirements set out in this Guide. Notwithstanding this, prior written approval is required to be sought from the CIT if budgeted expenditure for any item is to be transferred to any other items or any unbudgeted expenditure item (e.g. new/alternative equipment item, new project staff, revised number/rank of the project staff, revised remuneration period of the project staff, new/alternative consumable item). Justification is required for any spending in excess of the budget items in the relevant accounts and reports to be submitted to the SERAP Secretariat. The final decision on whether certain items of expenditure should be/can be changed or included/charged to a project vests with CIT. CIT reserves the right to require the companies to return the mis-spent amount together with interest income accrued to the Government.

#### ***5.2 Unallowable Costs***

##### *General*

- 5.2.1 All project funds (including the SERAP Fund and the recipient company's matching fund, but excluding interest income which should not be used) are for the sole purpose of carrying out the projects. Project funds may be used in accordance with the Agreement for covering -
- (a) the costs of manpower specifically deployed for carrying out the project;

- (b) 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 and should not be included in the budget.

#### Manpower

5.2.3 Unless otherwise agreed by CIT, SERAP Fund will not cover any emolument to a person who is already on the payroll of the Government or a Government sub-vented body/institution or a university. 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 The project coordinator and deputy project coordinator of the project should be employed by the company at the time of application and throughout the project period. 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. If only part of their working time is deployed for the project, they should charge their effort on a pro-rata basis.

5.2.5 Subject to paragraph 5.2.3 above, company shareholders who possess the necessary skills, knowledge and experience and are directly involved in the research and development work of the project will be allowed to take nominal salary from the project funding. Company shareholders who are only responsible for project management and overseeing the development work will not be allowed to take salary from the project funding.

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

- (a) salary increment; and
- (b) gratuities, fringe benefits and allowances other than employer's contribution to the Mandatory Provident Fund (5% of the salary or HK\$1,000 per month, whichever is the less). Such fringe benefits and allowances include expenses on housing (include nominal rental for quarters), education, training, passage and travelling<sup>2</sup>, food, medical, dental, insurance, severance pay, overtime and untaken leave, etc.

#### Equipment

5.2.7 Cost of additional equipment for implementing the project can be charged to the project account. If the newly added equipment is to be shared among different projects, the cost should be charged to the project account on a pro-rata basis. Please 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 companies or from other organizations.

5.2.8 Specifically, project funds cannot be used to cover -

---

<sup>2</sup> Local/overseas training, study/trade mission and field trip are normally not allowed unless otherwise fully justified and approved by CIT. These should be itemised and put under the category of "Other Direct Costs" in the budget of the application proposal. Any travelling expenses incurred for such purposes should cover the cost of economy class fares (if any) incurred by project team members.

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

5.2.9 For general office and IT equipment specifically required for the project, they have to be either included in the approved budget 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

5.2.10 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.
- (c) utilities - charges for electricity, gas, water, telephone, fax.
- (d) transport - shuttle bus services, home to workplace travelling expenses.
- (e) general administration and office expenses.
- (f) staff-related costs - provident fund handling charges, staff training and development costs, 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 and approved by CIT).
- (i) organization of trade missions, participation fees at study/trade missions for individuals/ companies.
- (j) charges for services provided by the recipient company or its contractors/agents - accounting services, personnel services, procurement services, library services, security services, cleansing services, legal services, bank services, and central and departmental administrative services.
- (k) costs related to prior/subsequent year(s)/ period(s) adjustment(s).
- (l) capital financing expenses, e.g. mortgage and interest on loans/ overdrafts.

5.2.11 The above list is not exhaustive. Recipient companies should consult the SERAP Secretariat 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 by the Panel with the support of the SERAP Secretariat. Recipient companies have to submit progress reports until project completion or termination of the Agreement for each of their projects for approval according to the schedule as set out in the Agreement. All progress reports should be prepared in the standard format stipulated by CIT and submitted through ITCFAS. When preparing the Statement of Income and Expenditure for the reporting period required in the progress reports, please refer to paragraphs 4.3 and 4.4 of Chapter IV for details.
- 6.1.2 Upon request by the SERAP Secretariat, recipient companies are required to provide timely clarification and/or additional information to substantiate the content of the progress reports. The SERAP Secretariat will organize visits or meetings to examine the progress of a project.

#### ***6.2 Disbursement of SERAP Fund***

- 6.2.1 Disbursement of SERAP Fund will normally be done by quarterly instalments on an estimated cashflow basis. The first instalment will only be effected after the company has spent the first instalment of the matching fund with the necessary proof of expenditure. Thereafter, companies should submit progress reports of the project to the SERAP Secretariat according to the schedule set out in the Agreement. Unless circumstances justify the otherwise, subsequent instalments (except the last instalment) of SERAP Fund will be disbursed quarterly only if the project is able to meet the prescribed milestones and the SERAP Secretariat is satisfied with its progress and that there is evidence showing due contribution of the matching fund by the recipient company to the project. The last instalment of SERAP Fund will be disbursed to settle any outstanding Government's contribution after CIT has accepted the final report (please refer to paragraph 6.3 below) and the audited accounts (please refer to paragraph 4.5 of Chapter IV) of the project.
- 6.2.2 CIT reserves the right to withhold any further payment to the project if a large amount of funds remains unspent in the project account, if the project progress is not up to CIT's satisfaction, if there is any delay in submission of the progress reports or accounts or if there is any record of mishandling of public funds, lack of discipline in financial management or non-compliance with the terms and conditions of the Agreement.

#### ***6.3 Final Report***

- 6.3.1 Within two months from the project completion date or termination date of the Agreement, the recipient company has to submit a final report of the project covering the period from project commencement date to project completion date or termination date of the Agreement, in which, among other things, a synopsis of the project results (both technical and financial) has to be set out. The final report should also show clearly what the deliverables are, what competitive advantages they have as a commercial product and the marketing plan. The final report should be prepared in the standard format stipulated by CIT and submitted through ITCFAS.
- 6.3.2 Upon request by the SERAP Secretariat, recipient companies are required to provide timely clarification and/or additional information to substantiate the content of the final report. The

project coordinator and/or other project team members may be invited to a Panel meeting to present the project results.

#### **6.4 *Suspension or Termination of Funding Support***

6.4.1 CIT may terminate a project or suspend SERAP Fund at any time for reasons which include, inter alia, lack of material progress of the project, slim chance of completion of the project in accordance with the Agreement, the original objectives of the project no longer relevant to the needs of the industry as a result of material change in the circumstances, objectives and relevance of the project have been overtaken by events, failure to produce evidence of the company's contributions, or CIT sees fit to terminate the project in public interest.

#### **6.5 *Return of Residual Funds***

6.5.1 The recipient company shall return to the Government all residual funds remaining in the project account mentioned in paragraph 4.2.2 of Chapter IV (including interest income on a pro rata basis) upon completion of the project or termination of the Agreement and all actual interest income accrued from project completion date or termination date of the Agreement up to the date of payment, within one month after the acceptance of the final report and audited accounts by CIT. 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 *Documents for Recoupment of Funds***

6.6.1 During the entire project period and on completion of a project, the recipient company is required to report to the SERAP Secretariat in writing within one month upon receipt of any income derived from any third parties' investments.

6.6.2 In addition, on completion of a project, the recipient company is required to submit a 'Report on Revenue on a half-yearly basis.

6.6.3 To facilitate the SERAP Secretariat's determination and checking of the recoupment amounts until the entire amount of Government contribution has been recouped in full or any other timeframe as decided by CIT, the recipient company is required to submit, together with the reports mentioned in paragraphs 6.6.1 and 6.6.2 above, relevant documents as determined by the SERAP Secretariat, which include, among other things, revenue statements, audited accounts, capital and shareholding information.

## **Chapter VII**

### ***PROCUREMENT AND RECRUITMENT***

#### ***7.1 Procurement Procedures***

7.1.1 The recipient company 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 company 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\$1,430,000, quotations from at least five suppliers should be obtained. The recipient company 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\$1,430,000, open tendering should be used.

7.1.2 In case an applicant company intends to procure goods or services from one company/organization/individual, it has to provide details, justifications and its relationship with the company/organization/individual in the application form for not following the open procurement process set out at paragraph 7.1.1 above.

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

#### ***7.2 Hiring of Project Staff***

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

#### ***7.3 Title to Equipment***

7.3.1 The title to equipment for a project, including those procured with SERAP Fund, will be held by the recipient company.

## **Chapter VIII**

### ***PUBLICITY AND INTELLECTUAL PROPERTY RIGHTS***

#### **8.1 *Publicity and Acknowledgement***

8.1.1 Acknowledgement of SERAP support must appear on all equipment, facilities, publicity/media events related to a SERAP-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 a SERAP-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 SERAP Project Assessment Panel.”

#### **8.2 *Intellectual Property Rights and Use of Project Results***

8.2.1 Patent registration fee directly related to the project may be included in the budget.

8.2.2 The recipient company will hold all the intellectual property rights arising from the project results.

Revised on 24 November 2011