



Guide to the
Innovation and Technology Fund

Volume III
**University-Industry
Collaboration Programme**

6-2002



**Innovation and
Technology Commission**

The Government of the Hong Kong Special Administrative Region

Innovation and Technology Fund

Innovation and Technology Support Programme

supports midstream/ downstream research and development (R & D) projects undertaken mainly by universities, industry support organizations, professional bodies and trade associations

General Support Programme

supports projects that contribute to fostering an innovation and technology culture

University-Industry Collaboration Programme

is a matching grant which supports collaborative R & D activities between private companies and local universities

Small Entrepreneur Research Assistance Programme

is a matching grant supporting pre-venture capital stage of technology entrepreneur for starting up, carrying out R & D and conducting market validation

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Chapter I

INTRODUCTION

- 1.1 The Innovation and Technology Fund (ITF) has four programmes which are designed for different purposes. This is Volume Three of the *Guide to the Innovation and Technology Fund* (Guide) and provides details of one of the ITF programmes – the **University-Industry Collaboration Programme (UICP)**.
- 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 UICP aims to stimulate private sector interest in R&D through leveraging the knowledge and resources of universities. The emphasis is on close collaboration between private companies and universities in Hong Kong. There are three schemes under this programme - Teaching Company Scheme, Matching Grant for Joint Research and Industrial Research Chair Scheme.

- 1.4 UICP is administered by the ITF Secretariat under the Innovation and Technology Commission (ITC), the Government of the Hong Kong Special Administrative Region located at 20/F, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong (Tel : (852) 2737 2229; Fax : (852) 2957 8726). Any collaborative projects between private companies and local universities with R&D content that meet the objective and the eligibility criteria of individual scheme of the UICP may be submitted to the ITF Secretariat for consideration.
- 1.5 Applications for UICP are open all year round.
- 1.6 This Guide will give you the details of the funding support available under the UICP, 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 intend to apply for a grant under the UICP.

Chapter II

GENERAL FEATURES OF UICP

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

2.1.1 An application has to be submitted with a private company engaging in commercial activities as the applicant and a local university as the partner. The company has to be a company incorporated in Hong Kong under the Companies Ordinance and has substantial connection¹ to Hong Kong. To avoid conflict of interest, the university and the company have to be operated at arm's length in terms of ownership or assistance by the university to the company. In general, the university cannot own more than 50% of the company's shares. Furthermore, the project team members and the steering committee members representing the university should not be directors/shareholders/management team members of the company. The project may take place in the Mainland where justified.

2.2 ***The Three Schemes***

2.2.1 There are three schemes under this programme:-

¹ 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.

Teaching Company Scheme

- 2.2.2 The Teaching Company Scheme aims to foster university-industry partnership by supporting local companies to take on graduate students from local universities to assist in proprietary R&D work. The participating companies will benefit from the research deliverables. Students will benefit from their practical research experience in a genuine business environment. The universities will gain from having closer links with industry and a better understanding of its needs.
- 2.2.3 Graduate student(s) will be placed in the participating company to undertake research on a specific issue for a period of no more than two years. At the submission of an application to the ITF Secretariat by the company and its partner university, the student(s) must have already registered for a higher degree with the university.
- 2.2.4 The university will provide teaching guidance for the student(s) in handling the project. Both the participating company and its partner university will be involved in project formulation and monitoring.
- 2.2.5 The maximum contribution from the ITF to the monthly studentship for each graduate student amounts to \$7,500. As the project should last no more than two years, the maximum ITF funding for the studentship for each student would be \$180,000. The ITF grants may also cover **half** of the employer's contributions to the Mandatory Provident Fund (if any) and insurance against employee's compensation risk directly arising from the placement of the student(s) in the participating company as well as

half of the external audit fees² relating to the project and arising from compliance with the provisions of the ITF agreement. Unless otherwise agreed by CIT, other costs of the project are not funded, and would have to be borne by the company or covered by other income/funding sources.

Matching Grant for Joint Research

- 2.2.6 The Matching Grant for Joint Research aims to foster private companies to collaborate with universities in proprietary R&D projects. Projects that focus on routine applications of existing technologies or on the provision of bureau services will not be funded. Substantial contribution to a project is expected from the university. 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. Hence, it is expected that most of the project cost is to cover the university's project related expenses (subject to the unallowable costs as specified in Chapter V). The participating company has to bear no less than 50% of the project cost in cash.

Industrial Research Chair Scheme

- 2.2.7 The Industrial Research Chair Scheme aims to assist universities and industry to develop research efforts in the natural science or engineering fields that respond to industrial needs and not yet developed in Hong Kong but for which there is good development potential in the longer term. A distinguished

² Please refer to paragraph 4.5.4 of Chapter IV for details.

researcher in the university will be invited to be the chairholder to lead the project for a finite duration.

- 2.2.8 Same as the Matching Grant for Joint Research, the university's researchers should conduct a major part of the R&D work of the project. Hence, it is expected that most of the project cost is to cover the university's project related expenses (subject to the unallowable costs as specified in Chapter V). The participating company has to bear no less than 50% of the project cost in cash.
- 2.2.9 The project cost could cover the salary of a distinguished researcher to be the chairholder³ for a finite duration, as well as expenditure on additional manpower and equipment, and other direct costs related to the implementation of the project. The chairholder is expected to accept a light teaching load and devote no less than 90% of his/her working time to conduct the R&D work of the project during the project period.

2.3 *Steering Committee*

- 2.3.1 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 university and

³ The salary of the chairholder, which should not be more than his/her current salary (net of allowances, fringe benefits, etc. specified in paragraph 5.2.6(b) of Chapter V) under the payroll of the university plus annual salary increment to which the chairholder is entitled according to the university's salary scale, may be included in the budget.

should meet at least once every three months. The participating company and its partner university 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.

2.4 *Form of funding support*

2.4.1 Funding support is given to R&D activities only and not to business development or service expenses incurred by the company. The support is given as a grant, subject to cash contribution by the company amounting to no less than 50% of the project cost. The ITF grants will be disbursed by half-yearly instalments against satisfactory progress of the project and production of evidence showing due contribution of the company's matching funds to the project. The net amount requested from the ITF represents the net approved project cost after deducting the company's matching funds to the project and other expected incomes, if any (excluding interest income) during the project period.

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

2.5 *Duplication with other approved ITF projects*

2.5.1 Applicants for the UICP should check if their applications have similar R&D content or deliverables as other project(s) approved under the UICP or other ITF programmes. If so, the ITF Secretariat will consider, among others, the

transferability of the deliverables of the approved project(s) to the UICP application and possible competition between the application and the approved project(s), before deciding whether to give funding support. In general, funding support will not be given to an applicant under the UICP who is receiving funds from the Small Entrepreneur Research Assistance Programme under the ITF for the same project.

2.6 *Application Procedures*

- 2.6.1 Upon agreement between a private company and a university on collaboration in a project under any one of the three schemes, the private company being the applicant, and the university being the partner, can fill out an application form. The application form can be downloaded from the ITF website <http://www.itf.gov.hk>. It contains three parts, all sections of which have to be completed with supporting documents wherever required. Please read this Guide before filling in an application form. Applications will be processed and considered on a first-come-first-served basis. Each applicant company 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 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 ITF Secretariat will conduct screening of the application to ensure that it meets the objective and modus operandi of the scheme and the vetting criteria as set out under paragraph 3.2 below. The Secretariat may seek clarification or supplementary information from the applicant company. Applications will only be processed after ALL the required information has been received by the ITF Secretariat.

3.1.2 The Government will approve the release of grants for projects requesting not more than \$15 million from ITF. Approval from the Finance Committee of the Legislative Council is required for projects requesting more than \$15 million each from ITF.

3.2 Vetting Criteria

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

- (a) the potential of the project to contribute to innovation and technology upgrading of the economy, and broaden the scientific and technical knowledge base of the economy;

- (b) whether the R&D content merits the participation of a local university and the commitment of the company and the university to the project in terms of financial contribution and manpower involvement;
- (c) the overall planning and organizational structure of the project and the technical and project management capability of the project team;
- (d) whether the proposed budget is reasonable and realistic; and
- (e) whether the project should be delivered by the company as part of its normal business activities and development or service engagement.

3.3 *Notification of Results*

- 3.3.1 The ITF Secretariat will notify the applicant company of the assessment result in writing within 30 working days from the receipt of full information related to its application. For projects for which funding support has been approved, the ITF Secretariat will issue an approval-in-principle letter to the applicant company and the applicant company will be required to submit a cashflow projection for the project, a revised application proposal (where necessary) and other documents as deemed necessary. The applicant company's submissions should be prepared with due account of the comments of the ITF Secretariat and the feasibility of implementing the project according to the original schedule. Subject to further vetting by the ITF Secretariat, the application proposal, together with other necessary

documents like the cashflow for the project, will be formally approved and appended to the project agreement. If an application is declined, reasons will be provided.

3.4 ***Withdrawals***

- 3.4.1 The applicant company and its partner university can write to the ITF Secretariat to withdraw an application at any time before an agreement is signed between the Government and the two parties.

3.5 ***Resubmission***

- 3.5.1 A declined application may be resubmitted only if it has been revised substantially or if it has been able to produce additional information to address the comments made by the ITF Secretariat in its earlier review. In completing the application form for a resubmitted application, the applicant company 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.

3.6 ***Returns***

- 3.6.1 Applications will be returned if they are submitted by ineligible organizations or if they have been declined previously but have not been revised in accordance with paragraph 3.5 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 company and its partner university have 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

4.2.1 Universities may be exempted from opening 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 provided that:

- (a) all the project funds would not be put in any investment instrument other than risk-free interest-bearing bank accounts with a licensed bank registered under the Banking Ordinance (Cap.155); and

- (b) if project funds are placed together with other funds of the university, the interest income for each project shall be apportioned equitably from all ACTUAL monthly bank interest income generated from total bank deposits (fixed deposits and savings accounts only) for the month included in the university funds for all positive projects' fund balances from project commencement date up to the date of payment to the Government in accordance with the following formula:

<p>Average positive ledger balance (i.e. the simple average of the opening and closing balances) of each project for the month, adjusted for disallowed expenses, unrecorded income, if any, and accrued interest (Note 1&2)</p> <hr style="border: 0.5px solid black;"/> <p>Average bank balance (extracted from bank statements/bank passbooks) for the month of university funds placed in bank deposits (fixed deposits and savings accounts only) (Note 2)</p>	X	<p>Total actual monthly interest income generated from total bank deposits (fixed deposits and savings accounts only) for the month included in the university funds</p>
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Important Notes:

- (1) *Negative interest is not allowed to be charged on any negative projects' fund balances.*
- (2) *As the amount of unrepresented cheques would have been transferred to the current account, therefore the effect of the unrepresented cheques is contras with the current account. In turn, a proportionate share of the average bank balance of the university fund placed in the working capital (cash and current accounts) for the month is not provided for in the denominator. It is based on the assumption that all projects' funds balances are placed in bank deposits (fixed deposits and savings accounts only).*

- 4.2.2 All project funds (including the ITF grants, the company's matching funds, interest income and all other receipts arising from the project) should be deposited into the risk-free interest-bearing bank account opened with a licensed bank mentioned in paragraph 4.2.1(a) and all payments exclusively applied to the project for which they were paid should be paid out from the bank account. All project funds should be kept in the bank account by the university 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 university, hold the same as trustee for the Government.
- 4.2.3 All interest income generated from the bank account should be credited back to the project account, should not be used and should be returned to the Government in accordance with the percentage specified in the project agreement 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 participating company and its partner university 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.
- 4.2.4 The participating company and its partner university 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, 4.2.2 and 4.2.3 above. In this regard, the

Government will take such action as may be deemed necessary.

4.3 ***Books and Records***

4.3.1 The university is also required to keep a proper and separate set of books and records (project account) for each project (regardless of whether the expenditure is incurred by the company or the university). The project account should be maintained in such a manner as to enable the production of Statement of Income and Expenditure (items in the same format as shown in the project budget included in the approved project proposal (approved project budget)) 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. Universities may choose to prepare financial statements for progress reports and annual audited accounts of each project on *cash* basis. However, the financial statements for the final report and the final audited accounts of each project have to be prepared on *accrual* basis. 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. 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 university 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 Director of Audit will have unhindered access to the books of accounts and records relating to the project when conducting financial audit and inspection of such books and records at any time when such books and records are kept and have right to obtain photocopies of such books and records, if necessary. When so requested in this connection, the organization 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 organization in receipt of ITF grants. CIT reserves the right to require the participating company and its partner university to return mis-spent amount together with interest income accrued to the Government.

4.4 ***Reporting requirements***

- 4.4.1 Subject to the endorsement by the steering committee, the participating company and its partner university have to jointly 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 for each project. 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 if the project fund involved is \$1 million or above, and within one month if it is below \$1 million.

4.4.2 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 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 arithmetic errors or adjustments 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 company/university or the same project team members.

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 and other instructions set for the projects, the annual and final accounts should be audited 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 university 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 for Auditors of Recipient Organizations (the Notes) issued by ITF Secretariat in conducting audits and preparing auditors' report for each annual/final accounts of each project. The engagement letter should also specify that CIT, Director of Audit and his authorized representatives should have the right to communicate with the Auditors on matters concerning the annual/final accounts and the supporting statements. In conducting the audits, the Auditors should comply with the relevant Standards and Statements of Professional Ethics issued and updated from time to time by the Hong Kong Society of Accountants. In the annual and final audited accounts, the Auditors are required to express an audit opinion as to whether the university and the annual/final accounts of the project have complied, in all material respects, with all the requirements set out in paragraph 2 of the Notes and to make full disclosure of any material non-compliance in the auditors' report.
- 4.5.3 The participating company and its partner university 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 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. The Auditors should obtain all the necessary information, documents and explanations

considered necessary in order to provide sufficient evidence and basis to form an audit opinion.

- 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 \$1 million, between \$1 million and \$5 million and more than \$5 million should not be more than \$5,000, \$10,000 and \$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 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 dates⁴, key project staff (including project coordinator, deputy project coordinator and project investigator) or key equipment⁵, scope, methodology, budget (other than circumstances set out in paragraphs 5.1.2 to 5.1.10 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 in the standard form which can be downloaded at the website <http://www.itf.gov.hk/download>. 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

⁴ 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.

⁵ Key project staff and key equipment are identified in the project proposal appended to the project agreement.

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.

- 5.1.2 For projects funded under the UICP, an accumulative 30% virement into/out of the categories of manpower, equipment and other direct costs of ORIGINALLY approved project budget would not require prior approval of the CIT. The virements made, and the underlying reasons however, have to be reported in relevant progress reports to the ITC. Any single additional deviation exceeding 30% of the ORIGINALLY approved project budget would require prior written approval from CIT.
- 5.1.3 The virements made would be governed by the following basic rules:-
- (a) changes have to be made within the overall approved project budget (excluding interest income);
 - (b) virements have to be made within the same budget category first;
 - (c) no additional grant from ITF is required;
 - (d) changes do not involve any unallowable cost items as defined in the Guide;
 - (e) all costs incurred for a project are used exclusively for that project;

- (f) any virements made, and the underlying reasons, are reported in the progress reports and final report;
- (g) if necessary, the ITC would also examine the details contained in the progress reports through project visits or inspection;
- (h) ITC reserves the right to require the participating company and its partner university to return the mis-spent amount together with interest income accrued to the Government, including mis-spent amount on items which do not require prior approval and reported in the progress reports; and
- (i) the CIT is the final authority. If there are very major irregularities involved, ITC may terminate the funding support to the project in question.

5.1.4 The detailed operation is set out below.

Manpower

5.1.5 On manpower -

- (a) any change in key project staff would still require prior approval because of the need to ascertain that the changes would not affect the technical capability of the project team. The list of key project staff would need to be agreed with the ITC before the project is approved;
- (b) inclusion of any new item(s) exceeding \$500,000 (cumulative) would require prior approval of the ITC; and

- (c) budgetary changes exceeding \$500,000 (cumulative) to any manpower item(s) - new or existing, would require prior approval.

Equipment

5.1.6 On equipment -

- (a) any change in key equipment would still require prior approval because of the need to ascertain that the changes would not affect the conduct of the project. The list of key equipment would need to be agreed with the ITC before the project is approved. A piece of equipment costing more than \$500,000 would automatically be counted as key equipment;
- (b) inclusion of any new item(s) exceeding \$500,000 (cumulative) would require prior approval of the ITC; and
- (c) budgetary changes exceeding \$500,000 (cumulative) to any equipment item(s) - new or existing, would require prior approval.

5.1.7 Any new items under the equipment category have to be R&D equipment purchased exclusively for use by the project. Non-specific equipment item, such as miscellaneous equipment, would not be allowed for inclusion in the budget.

Other Direct Costs

5.1.8 On other direct costs -

- (a) inclusion of any new item(s) exceeding \$100,000 (cumulative) would require prior approval of the ITC; and
- (b) budgetary changes exceeding \$100,000 (cumulative) to any item(s) - new or existing, would require prior approval of the ITC.

5.1.9 Items under this budgetary category need to be specific, e.g. chemical reagents for a certain experiment. Non-specific item, such as miscellaneous item, would not be allowed for inclusion in the budget.

5.1.10 In case external consultants are required for the project, the applicant should set out clearly the justifications and expected time commitment of the consultants under the project.

5.2 *Unallowable Costs*

General

5.2.1 All project funds (including ITF grants, the company's matching fund and other incomes and excluding interest income which should not be used) 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 equipment⁶ procured specifically for carrying out the project; and
- (c) other direct costs which are specifically incurred for carrying out the project.

5.2.2 Only those expenditures directly related to the R&D work of the proposed project would be funded. Unless otherwise fully justified, those non-R&D expenditures (e.g. mass production costs, costs for product/technology commercialization, publication/printing costs, organization of or participation in seminars, exhibitions, workshops and other promotional events/activities, etc.) should be excluded from the budget.

5.2.3 All expenditures 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

5.2.4 Unless otherwise agreed by CIT, the ITF will not pay any emolument to (i) the existing staff of the company and (ii) staff members who are already on

⁶ Except the Teaching Company Scheme under which any costs for equipment should be borne by the participating company or covered by other income/funding sources.

the payroll of 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. It is however, not applicable to the chairholder under the Industrial Research Chair Scheme⁷. Furthermore, the manpower cost of university staff at research assistant or equivalent rank may be charged to the project in accordance with his/her involvement on a full-time or a pro-rata/hourly basis as appropriate provided that a monthly time sharing record devoted by the staff to the project is maintained.

5.2.5 Subject to paragraph 5.2.4 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.

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

(a) annual salary increment for any staff recruited for implementing the project (except for the chairholder under the Industrial Research Chair Scheme⁷) other than cost of living adjustment at a rate comparable with and applicable to the civil service.

(b) gratuities, fringe benefits and allowances other than employer's contribution to the Mandatory Provident Fund. Such fringe benefits and

⁷ Please see paragraph 2.2.9 for details.

allowances include expenses on housing (include nominal rental for quarters), education, training, passage and travelling⁸, food, medical, dental, insurance⁹, severance pay, overtime and untaken leave, etc.

Equipment (for Matching Grant for Joint Research and Industrial Research Chair Scheme only)

- 5.2.7 Only cost of new equipment for implementing the project can be charged to the ITF. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the company/university is required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Please specify in detail in the application and project budget if such incident will happen.
- 5.2.8 Applicant companies and partner universities are encouraged to share the use of existing equipment within their organizations or from other organizations. Maintenance cost of the existing equipment can be charged against the project account on a pro-rata basis if the company/university

⁸ Local/overseas training, study/trade mission and field trip are normally not allowed unless otherwise fully justified. These should be itemized 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. Any travelling expenses incurred for such purposes should account for no more than 5% of the amount of funds requested from the ITF and cover the cost of economy class fares (if any) incurred by project team members.

⁹ Except insurance against employee's compensation risk for graduate student(s) under the Teaching Company Scheme.

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”.

5.2.9 Specifically, project funds cannot be used to cover-

- (a) rental/time cost of existing equipment owned by the participating company and its partner university; and
- (b) depreciation/amortization 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 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

5.2.11 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.
- (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 or subsequently 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 organization or their contractors/agents - 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).
- (l) capital financing expenses, e.g. mortgage and interest on loans/ overdrafts.

5.2.12 The above list is not exhaustive. The participating company and its partner university 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 by the ITF Secretariat. The participating company and its partner university have to jointly 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. In-depth technical details should be provided to facilitate assessment. 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.
- 6.1.2 When preparing the Statement of Income and Expenditure for the reporting period attached to the progress report, please refer to paragraphs 4.3 and 4.4 of Chapter IV for details. Upon request by CIT, the participating company and its partner university are required to provide timely clarification and/or additional information to substantiate the content of progress reports. Each progress report will then be submitted to CIT for approval. CIT may organize visits or progress review meetings to examine the progress of a project.

6.1.3 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 and payable to the university. The first instalment will only be effected when the necessary proof of receipt of the company's matching funds and all other required documents has been submitted. 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 the ITF Secretariat is satisfied with its progress and that there is evidence showing due contribution of the matching funds by the company to the project. CIT reserves the right to withhold any further payment to the project if a large amount of funds remains unspent in the project account or if there is any delay in submission of progress report.

6.2.2 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.

6.2.3 In addition, the ITC reserves the right to withhold a sum of retention money of 5% of the ITF fund 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 participating company and its partner university have to jointly 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) have to be set out. The final report should be prepared in the standard format stipulated by CIT. 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. Upon request by CIT, the participating company and its partner university are required to provide timely clarification and/or additional information to substantiate the content of final report.

6.3.3 The final report will then be submitted to CIT for approval.

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, 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 university should return to the Government, in accordance with the percentage specified in the project agreement, all residual funds 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 participating company may be required to submit a post-project evaluation report for its project to report on the successfulness of the project in terms of bringing commercial opportunities to the company, increase of investment on R&D in the company and creation of R&D related job opportunities within the company.

Chapter VII

PROCUREMENT AND RECRUITMENT

7.1 Procurement Procedures

7.1.1 The university should be responsible for the procurement of all equipment, goods or services for the project with the ITF grants and matching funds from the company. It may follow the procedures set out in (a) to (c) below or choose to comply with its established/current standard procurement procedures. As a standard rule, all procurements for goods and services should be carried out in an unbiased and fair manner. Should in the unlikely circumstances that the participating company is responsible for the procurement, it must also comply with the following procedures unless CIT agrees otherwise.

- (a) For every procurement the aggregate value of which is more than HK\$5,000 but less than HK\$10,000, quotations from at least two suppliers should be obtained. The supplier that has submitted the lowest bid should be selected. If the lowest bid is not selected, full justifications must be given.
- (b) For every procurement the aggregate value of which is HK\$10,000 or more, but less than HK\$500,000, quotations from at least three suppliers should be obtained. The supplier that has submitted the lowest bid should be selected. If the lowest bid is not selected, full

justifications must be given.

- (c) For every procurement the aggregate value of which is HK\$500,000 or more, open tendering should be used.

7.1.2 In case the participating company and its partner university intend to procure goods or services from one company/organization/individual, they have to provide details, justifications and their 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. If the application is approved, subsequent approval from CIT will not be required.

7.1.3 All quotations and tendering documents should be kept for CIT and Director of Audit's inspection 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.

7.2 ***Hiring of Project Staff***

7.2.1 The participating company and its partner university are required 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 all equipment procured under a UICP project will vest with the university regardless of whether or not it is the university 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 university should make the equipment available for CIT and Director of Audit's inspection upon request within two years after project completion or termination of project agreement.

Chapter VIII

PUBLICITY AND INTELLECTUAL PROPERTY RIGHTS

8.1 Publicity and Acknowledgement

- 8.1.1 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 or the Innovation and Technology Commission.”

8.2 Intellectual Property Rights (IPR)

- 8.2.1 Intellectual property rights mean all intellectual property rights arising from the project including designs, inventions, patents, copyrights, rights in goodwill, and trademarks, whether registered or unregistered. In this regard, patent registration fee directly relating to the project of not more than HK\$100,000, or 90% of the total direct costs involved in patent registrations, for functional inventions, whichever is the lower, may also be included in the budget.

8.2.2 UICP aims to stimulate private sectors' interest in R&D projects through leveraging the expertise of universities. In order to encourage private companies to undertake more R&D projects, all IPR arising from the project will be solely owned by the participating company. The participating company however, could at its own discretion decide if the royalties arising from the IPR are to be allocated to other parties (say its partner university which has injected substantial resources to the project), subject to negotiation between the parties concerned.