

February 2018



# **Guide to R&D Project Applications**

## Chapter I

### *Introduction*

- 1.1 The Hong Kong Research Institute for Textiles and Apparel (HKRITA) is established under the funding of the HKSAR Government's Innovation and Technology Commission (ITC) and hosted by the Hong Kong Polytechnic University (PolyU). HKRITA aims to provide a one-stop service for applied research, technology transfer and commercialization and to help facilitate textiles and clothing industries to move up high value-added manufacturing and servicing activities.
- 1.2 Funding from HKRITA is to support projects that contribute innovation and technology upgrading the textiles and clothing industry. It aims to increase the added value, productivity and competitiveness. HKRITA hopes that, through funding support, local textile and clothing companies could be encouraged and assisted to upgrade their technological level and introduce innovative ideas to their business.
- 1.3 HKRITA is located at R906, Shirley Chan Building, the Hong Kong Polytechnic University, Kowloon (Tel.: (852) 2627 0180; Fax: (852) 2364 2727). Applications that meet the objective and eligibility criteria of HKRITA's R & D programmes can to be submitted to HKRITA electronically through the Innovation and Technology Commission Funding Administrative System (ITCFAS). For details, please visit <http://www.itf.gov.hk>.
- 1.4 In considering applications, weighting will be given to:
  - (a) Focus – to identify key technology focus areas where the local textiles and clothing industry has competitive advantages for optimal use of resources to create greater impact;
  - (b) Market relevance – to adopt a demand-led, market-driven approach in driving the innovation and technology programme to ensure that our investments are relevant to industry and market needs;
  - (c) Industry participation – to closely involve the industry in defining the focus areas and in other stages of innovation and technology development;

- (d) Leverage on the Mainland – to capitalize on the opportunities presented by the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and to utilize the production base in the Greater Pearl River Delta as the platform for developing our applied R & D and commercialization of applied R & D deliverables;
- (e) Better coordination – to strengthen coordination among various technology related institutions and the industry for enhanced synergy and impact; and
- (f) Benefit sharing - to encourage participation by the industry and other research/technology partners in R & D projects, the Intellectual Property (IP) arrangements should be made to allow participants to enjoy IP rights, and the form of the arrangements should be commensurate with the level of contributions.

## Chapter II

### *General Features of R & D Programmes*

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

2.1.1 Designated local public research institutes (including local universities, self-financing degree-awarding institutions registered under the Post-Secondary Colleges Ordinance (Cap. 320), the Hong Kong Productivity Council, the Vocational Training Council, the Clothing Industry Training Authority and the Hong Kong Institute of Biotechnology) industry support organizations, trade and industry associations, professional bodies, and local companies (either locally incorporated or established under the statute of the Hong Kong Special Administrative Region) are eligible to apply.

#### **2.2.** *R & D Programmes*

Broadly HKRITA provides four types of R & D programmes:

2.2.1 Platform Research Programme –This requires industry sponsorship from at least one private company to cover at least 10% of the total project cost<sup>1</sup> within the project period. The sponsorship can either be in cash or in-kind contribution or a combination of both.

Seed Research Programme – Under Platform Projects, there is also a special funding arrangement for Seed Projects. The objectives are to facilitate innovative and exploratory research as foundations for developing future platform or collaborative research projects; and preliminary studies on overlooked or new textile and apparel research area currently not covered by other institutes. The maximum funding support is \$2.8 million and the duration of the project should normally not exceed 18 months. Industry sponsorship requirement is not mandatory but is still encouraged as an indication of the potential market needs and interest.

2.2.2 Collaborative Research Programme –This requires an industry co-applicant which should be (i) a private company incorporated in Hong Kong under the Companies Ordinance (Cap.622), (ii) an industry support organisation, (iii) a trade and industry association or (iv) a professional body which has the legal capacity to enter into contracts. The industry co-applicant is required to contribute no less than 50% of the total project cost in cash or a combination of cash and in-kind of which at least 30% is required upon the project commencement. To avoid conflict of interest, the designated local public research institute and the industry co-applicant have to be operated at arm's length in terms of ownership or assistance

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<sup>1</sup> Total project cost equals to the sum of total project expenditure (including items covered by in-kind contributions) and university overhead if any.

by the designated local public research institute to the industry co-applicant. In general, the designated local public research institute cannot own more than 50% of the industry co-applicant's company shares. Furthermore, the project team members and the steering committee members (please see paragraph 6.2) representing the designated local public research institute should not be directors/shareholders/management team members of the industry co-applicant's company.

- 2.2.3 Contract Research Programme – Applications are open to private companies which are required to pay HKRITA the full costs of the R&D work done.
- 2.2.4 Public Sector Trial Scheme (PSTS) – It aims to facilitate and promote the realisation and commercialisation of R&D results developed from platform or collaborative projects. It is confined to the production of tools / prototypes / samples and the conducting of trials in the public sector which includes Government bureaux and departments, public bodies (e.g. Hospital Authority, Airport Authority, etc.), non-profit-making trade associations, charitable organisations, etc. As a general rule, funding support not exceeding the actual cost of the original R&D project can be provided for such purpose.

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

#### 2.3.1 For Projects under the Platform Research Programme:

Funding support from HKRITA is normally given as a grant. The net amount requested from the funding presents the net approved project cost after deducting the expected income (excluding interest income) during the project period, the amount of sponsorship and/or funding from other sources for the project. All funding grants will normally be disbursed by instalments, subject to satisfactory progress against agreed project milestones and due payment of the industry sponsorship and other sources of financial contribution if any. Funding grants may be used for meeting the manpower, equipment and other direct costs specifically required for conducting the project. For projects involving recurrent expenditures, the applicant organization has to demonstrate that such expenses will be of a specified finite duration or that the project will become self-financing after the completion of the project.

For Projects under the Seed Research Programme:

The maximum funding support is \$2.8 million and the duration of the project period should normally not exceed 18 months. Industry sponsorship is encouraged but not mandatory.

#### 2.3.2 For Projects under the Collaborative Research Programme:

Funding support from HKRITA is given as a grant, and is subject to cash or a combination of cash and in-kind contribution by the industry co-applicant amounting to no less than 50% of the total project cost<sup>1</sup> of which at least 30% is required at the start of the project. Funding grants will be disbursed by instalments against satisfactory progress of the project and on a matching basis, i.e. the contribution from the industry co-applicant should be made first and the disbursement from HKRITA will be made afterwards. The approved institution administrative overheads (please see paragraph 5.2.14) are to be contributed by both HKRITA and the industry co-applicant.

### 2.3.3 For Projects under PSTS:

As a general rule, funding support not exceeding the actual cost of the original R&D project can be provided for approved projects under this scheme. Unless otherwise agreed by ITC, the project funding would only cover additional costs exclusively for the production of prototypes/ samples (including the cost to customise the project deliverables) and conducting of trials. Internal administrative charges and overheads (except insurance costs) incurred by the organisation conducting the trials and other parties are not allowed.

2.3.4 The R&D work should primarily be conducted within the territory of Hong Kong. However, given the close ties between Hong Kong and the Mainland, up to 50% of the R&D work in a project can be conducted (and relevant expenditure incurred) in the Mainland. When certain R&D tasks need to be conducted outside Hong Kong (other than the Mainland), prior approval from HKRITA must be sought with justifications. For projects under PSTS, the trials can be conducted outside Hong Kong but are confined to the public sector of the economies concerned. The scale of such trials must be within reasonable limits and in general no more than half of the funds approved by Innovation and Technology Commission (ITC) under the Trial Scheme can be used outside Hong Kong.

## 2.4 *Industry Sponsorship and Other Sources of Financial Contribution*

### 2.4.1 Platform Projects:

(a) Applicants should obtain industry sponsorship of at least 10% of the project cost from at least one private company (which should in general be the deliverable users but not the equipment/service suppliers of the project) to demonstrate reasonable market interest. The sponsorship can either be in cash or in-kind or a combination of both, and should cover at least 10% of the total approved project costs. Each sponsoring company must contribute at least 1% of the total project cost<sup>1</sup> or HK\$10,000 whichever is the less. In general, the higher degree of contribution, the stronger industry interest in the project and hence the greater chance of success to commercialisation. Applicant organizations are required to provide details of the industry sponsorship which

they have secured in their applications, without which the applications will not be processed further.

- (b) The industry sponsorship should normally be paid upfront. Where necessary, at least half of the pledged cash sponsorship should be paid to the project account before commencement of the project and the remaining sponsorship (including both cash and in-kind) should be received before the “mid-point” of the project period.
- (c) For projects initiated by Government bureaux / departments and statutory bodies of Hong Kong, the sponsorship requirement can possibly be waived if the applications have clear support from Government bureau / departments and / or statutory bodies, demonstrate clear community interests, and have difficulties in seeking industry sponsorship in the prevailing circumstances.

#### 2.4.2 Collaborative Projects:

- (a) The industry co-applicant should make contribution (which can be in cash or a combination of both cash and in-kind) amounting to no less than 50% of the approved total project cost within the project period.
- (b) The industry co-applicant is required to make at least 30% of its pledged cash or in-kind contribution before HKRITA makes the first instalment of funds to the project upon the project commencement. The industry co-applicant's contribution and the funding support from HKRITA should be in proportion to their respective contribution in the total approved project cost.

#### 2.4.3 In-kind sponsorship, if in the form of equipment or consumables, will only be accepted provided that:

- (a) the in-kind sponsorship is essential to the project and is contributed by the industry specifically for the project. In this connection, donation of in-kind sponsorship by the participating research institute will not be accepted as it is not contributed by the industry;
- (b) the in-kind sponsorship should be included as part of the industry sponsorship or matching funds, as appropriate, of the project budget while the corresponding expenditure of the same amount should be included in the expenditure section;
- (c) the delivery status of the in-kind sponsorship should be reported in the progress/final reports of the projects; and
- (d) documentary proof of the value of sponsorship should be provided to facilitate a fair assessment of the value of contribution, e.g. details of the valuation for new and used equipment and consumables. In general, the

applicant should provide two independent quotations for each item of in-kind sponsorship. Under special circumstances such as the sponsor being the sole supplier of the item or the items is unique in terms of IP ownership or technology, in which case there is a genuine difficulties in obtaining a second independent quotation, other form of documentary evidences from the sponsor may be accepted.

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

- 2.4.4 For Seed Research Programme and PSTS, industry sponsorship is not mandatory. However, where the designated local public research institute receives cash or in-kind sponsorships from individual companies to support the project development or production of prototypes should be provided in the application.
- 2.4.5 Other sources of financial contribution refers to the contribution to the project obtained from various parties, including funding provided by the centre vote of HKRITA, contribution in cash or in-kind from supporting parties, e.g. charitable organisations, individuals, etc. It can also include personal contribution by project team members. However, they shall exclude industry sponsorship as mentioned above and project income.
- 2.4.6 Under the Research & Development (R&D) Cash Rebate Scheme, industry sponsorship contributed by industry co-applicant under collaborative projects or private companies under platform projects towards a R&D project funded by HKRITA is eligible for cash rebate. Further information on the R&D Cash Rebate Scheme is available at <http://www.itf.gov.hk/1-eng/crs.asp>.

## **2.5 Commercialization and Intellectual Property**

- 2.5.1 Intellectual property (IP) rights mean all intellectual property rights arising from the project including patents, trademarks, service marks, trade names, design rights, copyright, domain names, database rights, rights in Knowhow, in new inventions, designs or processes, etc., whether registered or unregistered. In this regard, patent registration fee for functional inventions directly relating to the project may also be included in the budget. The patent registration fee charged to the project account should not be more than HK\$250,000. As a general rule, the title of the foreground IP derived from the Platform and Seed Research Programmes should vest in HKRITA concerned. For projects under Contract Research Programme and Collaborative Research Programme, where the industry co-applicant has actually contributed 51% or more of the total project cost within the project period, the industry co-applicant will take the ownership of the foreground IP rights of the projects.



- 2.5.2 For Platform Research Programme, Seed Research Programme, and PSTS, the implementation organization is required to collaborate with HKRITA, and to disseminate/transfer the project results to industries through workshops, seminars, licensing or consultancy arrangements etc subject always to any ongoing confidentiality restrictions. Exclusive use of the project results is not allowed unless otherwise approved by HKRITA and Commissioner for Innovation and Technology (CIT).
- 2.5.3 The arrangement on the sharing of research results including intellectual property should be clearly set out in the project proposal and is subject to the approval of HKRITA and CIT.

## **2.6 Application Procedures**

2.6.1 To minimize unnecessary work and save time, the following two-step approach should be followed:

- (a) applicants should first brief HKRITA on the proposed application by way of a powerpoint presentation which identifies the key features of the project proposal – this will facilitate an initial assessment as to whether the proposal can be supported; and, if so
- (b) a formal application for funding, fine-tuned on the basis of earlier discussions, can then be formally submitted via Technology Commission Funding Administrative System (ITCFAS) at the website: <https://www.itf.gov.hk>. Submission of a hardcopy of the proposal application stamped by the designated local public research institute is required. All sections of the online application form have to be completed with supporting documents wherever required. Before submission, applicants should read this Guide, the explanatory notes embedded in the application form and the following papers-
  - i. “Creation of a Favourable Ecological Environment to Facilitate the Realisation of Research and Development Results” (ref. LC paper no. CB(1) 389/10-11(05)):

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1116cb1-389-5-e.pdf>

- ii. “Final Report on Comprehensive Review on the Innovation and Technology Fund” (ref. LC Paper No. CB(1)211/14-15(03)):

<http://www.legco.gov.hk/yr14-15/english/panels/ci/papers/ci20141118cb1-211-3-e.pdf>

- 2.6.2 No application fee will be charged. Unless requested by HKRITA, supplementary information on an application provided after submission of the application will not be considered and will not form part of the application.
- 2.6.3 Applicant organisations should also provide the business background of the collaborating organisations (if any) and details (including justifications) of such kind of collaboration in the applications (e.g. a copy each of the agreement with each collaborating organisation where such agreement should clearly set out the collaborating activities, the project role of the organisations, the arrangements on the sharing of research results such as intellectual property etc).

## Chapter III

### *Vetting and Assessment Procedures*

#### **3.1 *Vetting procedures***

- 3.1.1 Upon receipt of an application, HKRITA will conduct a preliminary screening and may seek clarification or supplementary information from the applicant. For Platform Research Programme, where necessary, individual application may be subject to external peer review. HKRITA's assessment, together with the results of any external peer review, will be submitted to the Technology Committee of HKRITA which is constituted from a pool of assessors: businessmen, academics and Government officials. They provide the necessary commercial, technical and policy input in the assessment and monitoring processes. For Collaborative Research Programme, the vetting procedure is similar to other Research Programmes except that input from the Technology Committee may not be sought.
- 3.1.2 Project team members may be required to attend assessment meetings to present their projects to and answer queries from the Technology Committee of HKRITA.
- 3.1.3 HKRITA's recommendations will be submitted to ITC for approval for the release of ITF grants. Where the ITF grant for a project exceeds HK\$30 million, approval from the Finance Committee of the Legislative Council is required.
- 3.1.4 For Contract Research Programme, the Chief Executive Officer of HKRITA is authorized by HKRITA's Board to approve the project without involving the Technology Committee of HKRITA or CIT.
- 3.1.5 By submission of the project proposals to HKRITA, applicants are deemed to have given the requisite consent and authorisation to HKRITA for disclosing the project proposals to third parties for evaluation and assessment purpose.

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

- 3.2.1 Except for PSTS, the assessment framework comprises 7 components. Their various weightings for different research projects are as follows:

| <b>Vetting Criteria</b>                          | <b>Platform &amp; Collaborative Research Projects</b> | <b>Seed Research Projects</b> |
|--|---|-------------------------------|
| i. Innovation and Technology Component           | 20%   | 36%                           |
| ii. Technical Capability                         | 20%   | 32%                           |
| iii. Financial Considerations                    | 16%   | 8%                            |
| iv. Existence of a Holistic Plan to Realisation/ | 16%   | 4%                            |

|   |     |    |
|---|-----|----|
| Commercialisation   |     |    |
| v. Relevance with Government Policies or in Overall Interest of the Community | 12% | 8% |
| vi. IP Rights and Benefit Sharing   | 8%  | 4% |
| vii. Management Capability  | 8%  | 8% |

For the details of the above 7 components, please refer to the “Guide to Filling in the Application Forms” from the website: <http://www.itf.gov.hk>.

3.2.2 In general, the framework aims to achieve the following:

- (a) Encouraging and selecting projects with greater prospect of realisation/commercialisation;
- (b) Facilitating the trial of R&D outcomes (especially in the public sector), so that researchers and industry can gain actual experience to fine-tune the outcomes, build up ‘reference’ for subsequent marketing, and bring about wider economic and social benefits to the community;
- (c) Motivating the private sector to invest more in R&D activities in Hong Kong; and
- (d) Enhancing co-operation among Government, industry, academia and research institutes (官產學研).

3.2.3 PSTS - in considering a proposal, due consideration will be given to the possibility of enhancing the prospects for the R&D results to be applied (e.g. enhancing the chance of adoption in the public sector, technology transfer to industry or product development). This includes the wider benefit to the community to be brought about by putting the R&D results into application.

### **3.3 Notification of Results**

3.3.1 For projects for which funding support is recommended with conditions (e.g. to revise the project scope or deliverables, to remove unallowable cost items, etc), the applicant organization may be required to submit a revised application proposal, taking into account the comments of the Technology Committee of HKRITA. ITC will issue an approval-in-principle letter to the applicant organization. Subject to further vetting by HKRITA, the revised application proposal, together with other necessary documents including the cashflow for the project, will be formally approved and appended to the project agreement. If an

application is declined, HKRITA will provide in writing the reasons for the decision.

- 3.3.2 If the applicant organisation cannot provide a revised application proposal together with other necessary documents in 3 months or unless otherwise with full justification given and approved by HKRITA, based on the comments given by Technology Committee of HKRITA, the proposal application will be considered as being withdrawn by the applicant organisation.

#### **3.4 *Withdrawal***

The applicant organization can write to HKRITA to withdraw an application at any time before an agreement is signed between the Government and HKRITA.

#### **3.5 *Resubmission***

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

#### **3.6 *Returns***

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 and 3.3.2 above.

## Chapter IV

### *Project Agreement and Project Account*

#### **4.1** *Contractual requirements*

After funding approval has been obtained from CIT, the designated local public research institute and the industry co-applicant are required to sign an agreement with HKRITA and comply with all the terms and conditions laid down in the project agreement, this Guide and all instructions and correspondences issued by HKRITA and CIT from time to time in respect of the project.

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

- 4.2.1 The designated local public research institute is required to open a separate risk-free interest-bearing bank account (project bank account) with a licensed bank registered under the Banking Ordinance (Cap. 155) specifically for processing all receipts and payments of each project. The grants and all other receipts (including cash sponsorship and funding from other sources) arising from the project should be deposited into the project bank account and all payments exclusively applied to the project for which they were paid should be paid out from the project bank account. All project funds (including the grants, all other receipts and interest income) should be kept in the project bank account by the designated local public research institute which should be, until such funds are spent (paid) in accordance with the compliance requirements as specified in paragraph 4.1 above, returned to HKRITA by the designated local public research institute, hold the same as trustee for the Government of the HKSAR.
- 4.2.2 All interest income generated in the project bank account should be credited back to the project account, should not be used and should be returned to HKRITA 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 designated local public research institute is not entitled to charge to the project account any interest expenses or claim any compensation or relief of whatsoever nature against HKRITA in the event of any late or withholding of payment of the fund for any whatsoever reason.
- 4.2.3 The designated local public research institute may be required to compensate HKRITA 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, HKRITA will take such action as may be deemed necessary.

### **4.3 *Books and Records***

- 4.3.1 The designated local public research institute 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 (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 the project. All income and expenditure of a project should be properly and timely recorded in the books of accounts.
- 4.3.2 Accrual basis of accounting should be adopted for all projects. Expenditure could only be charged to the project account after the equipment and goods have been received, or services delivered. Moreover, the expenditure so charged should be incurred between the project commencement date and completion date as specified in the project agreement. Sponsorship income and all other income, budgeted or not, should form part of the income of the project and should be used solely for the project and their usage should follow the approved project budget, this Guide and instructions laid down for the projects. All the income and expenditure of a project must be received/ accrued and expended (paid)/accrued respectively in accordance with the basis of each budget line item as set out in the approved project budget.
- 4.3.3 The books and records of the project should be kept by designated local public research institute for at least two years after completion of the project or termination of the project agreement, or as otherwise specified by HKRITA within that two-year period. In this connection, HKRITA, CIT and Director of Audit will have unhindered access to the books of accounts and records when conducting financial audits and inspections of such books and records at any time, and have rights to obtain photocopies of such records, if necessary. HKRITA, CIT and Director of Audit may at their absolute discretions request the designated local public research institute to make available and/or deliver photocopies of such records to HKRITA, CIT and Director of Audit at its sole cost and expenses. When so requested in this connection, the designated local public research institute will be obliged to make available all project books of accounts and records and explain to HKRITA, CIT and 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 the grants. HKRITA also reserves the right to require designated local public research institute to return any mis-spent monies together with interest income accrued or which would have accrued had the monies not been misspent.

### **4.4 *Reporting Requirements***

- 4.4.1 The designated local public research institute has to submit to HKRITA 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 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 Auditor's Report.

- (a) Annual audited account 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 approval date of the Final Report or termination date of the project agreement.
- 4.4.2 All income received/receivable and expenditure incurred (paid or payable) for the project during the reporting period should be fully and properly accounted for in accordance with the project agreement, this Guide and all instructions and correspondences issued by HKRITA 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 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 HKRITA except the correction of arithmetic errors or adjustments as requested by HKRITA. Arithmetic errors should be rectified within 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 HKRITA will take into account in considering future applications from the same organization or the same project team members.

#### **4.5 *Auditing Requirements***

- 4.5.1 The requirement to submit annual/final audited accounts is to assure HKRITA that the project funds were fully and properly applied to the projects for which they were paid, and received and expended in accordance with the approved project budget; and that the designated local public research institute complied with the funding terms and conditions in the administration, management and usage of the project. The annual/final audited accounts should be reported by independent auditors who must be Certified Public Accountants holding a practicing certificate registered under the Professional Accountants Ordinance



- (Cap. 50) (the Auditors) and conducted in accordance with the latest version of the Notes for Auditors of Recipient Organizations (the Notes) issued by ITC.
- 4.5.2 The designated local public research institute 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 high level assurance engagement and preparing auditors' report for each annual/final account of each project. The engagement letter should also specify that HKRITA, CIT and Director of Audit and their authorized representatives should have the right to communicate with the Auditors on matters concerning the annual/final accounts and the supporting statements. In addition, the designated local public research institute should ensure that each of the auditors' reports must strictly follow the specimen as attached to the latest version of the Notes.
- 4.5.3 The designated local public research institute is required to make available to the Auditors all information, documents and explanations relating to the project. The information and documents mainly comprise project agreement, this Guide, any instructions and correspondences issued by HKRITA in respect of the project, progress report(s)/final report and project accounts and records.
- 4.5.4 External audit fees relating to the project and arising from compliance with the provisions of the project agreement have to be included in the budget. The maximum funding support allowed for an annual/final audited account of a project costing less than HK\$1 million, between HK\$1 million and HK\$5 million and more than HK\$5 million should not be more than HK\$8,000, HK\$14,000 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 final proposal appended to the project agreement. Any modification, amendment or addition to the project or the agreement, including change of the project commencement or completion dates<sup>2</sup>, project coordinator or key equipment, scope, methodology, budget (other than circumstances set out in paragraph 5.1.2 below) or cashflow projection, will require prior specific written approval by HKRITA. The project coordinator should inform HKRITA well in advance before submitting a change request electronically through ITCFAS. The project coordinator is responsible for overseeing the project generally; monitoring its expenditure and ensuring the proper usage of project funds in accordance with the approved project budget, this Guide and other instructions set for the projects; liaising with and answering all enquiries/requests raised by HKRITA for information and clarification on all aspects of the project; and attending progress meetings on the project.
- 5.1.2 Where the cumulative deviation of expenditure for a category does not exceed 30% of the original approved budget and does not result in any increase in the total approved project cost and the total amount of ITF grant requested, prior approval from HKRITA is not required. However, any virement as a result and the underlying reasons should be reported in the relevant half-yearly progress report(s) and/ or final report. If the deviation exceeds 30% of the original approved budget, prior approval from HKRITA is required and such request should be made electronically through the ITCFAS. Notwithstanding this, prior written approval is required to be sought from HKRITA if budgeted expenditure is to be transferred to any **unbudgeted expenditure item** (e.g. new/alternate equipment item, new project staff, revised number/rank of the project staff and new/alternate consumable item). Such request should also be made electronically through the ITCFAS. The final decision on whether certain items of income and/or expenditure should be/can be included / charged to a project should vest with HKRITA.
- 5.1.3 Notwithstanding paragraph 5.1.2 above, transfer of budgeted expenditure from patent registration to other items is not allowed.

#### **5.2 *Project Expenditure***

- 5.2.1 All project funds including the ITF grants allocated to the designated local public research institute, sponsorship and other income must be exclusively used for the

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<sup>2</sup> The commencement and completion dates are specified in the project agreement.

project and incurred within the project period, except otherwise approved by HKRITA in writing. Project funds may be used for covering –

- (a) the costs of manpower specifically employed for carrying out the project;
- (b) new equipment procured specifically for carrying out the project; and
- (c) other direct costs which are specifically incurred for carrying out the project.

5.2.2 Unspecified cost items such as miscellaneous, sundry and contingency etc. will not be accepted by HKRITA and should not be included in the budget.

5.2.3 In general, up to 50% of the approved total project cost can be incurred in the Mainland. When certain tasks need to be conducted outside Hong Kong (other than the Mainland), prior approval from HKRITA must be sought with justifications.

#### *Manpower*

5.2.4 The fund will not pay any emolument to a person who is already on the payroll of Government or a Government sub-vented body/institution or the industry co-applicant. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned. Specifically, project funds cannot be used to cover the allowances such as expenses on housing (including nominal rental for quarters), education, training, passage and travelling<sup>3</sup>, food, insurance, severance pay, overtime and undertaken leave, etc.

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 Notwithstanding paragraph 5.2.5, an applicant organization must not charge the salary of its existing staff against the project unless this is a deployment absolutely necessary and essential for the project and HKRITA's prior written approval has been obtained. In case only a certain percentage of the working time of an approved staff is deployed for the project, his/her salary can be charged on a

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<sup>3</sup> Local / overseas training, study / trade mission and field trip are normally not allowed unless otherwise fully justified. These should be itemised and put under the category of "Other Direct Costs" in the budget of the application proposal for approval. The number of participants should be limited to no more than one person from the project team, members of which shall be from the implementation organisations. Any travelling expenses incurred for such purposes should account for no more than 5% of the total amount of funds requested from HKRITA and cover the cost of economy class fares (if any) incurred by project team members.

pro-rata/hourly basis provided that a monthly time sharing record devoted by the staff to the project is maintained.

- 5.2.7 Project funding can generally be used to cover the salary of project staff, including employer's mandatory contribution to the Mandatory Provision Fund (MPF), contract gratuities, annual salary adjustment (excluding increments and promotions) and general fringe benefits (e.g. medical) in accordance with the established mechanism of the designated local public research institutes.

#### *Equipment*

- 5.2.8 Cost of new equipment for implementing the project can be charged to the project account. In general, hire-purchase of equipment is not allowed. If the new equipment is to be shared among different projects with its cost charged on a pro-rata basis under each project, the designated local public research institute is required to maintain a record on the usage of the equipment by the concerned projects for cost allocation purpose. Applicants are required to specify in detail in the application and project budget if such incident will happen. Applicants are encouraged to share the use of existing equipment within their organizations or with other organizations where possible (e.g. local universities and Hong Kong Science and Technology Parks Corporation). Maintenance cost of the existing equipment can be charged against the project account on a pro-rata basis if the applicant organization (excluding universities) maintains a record on the usage of the equipment. For the sake of clarity, such maintenance/rental cost (if any) should be placed under "Other Direct Costs". Individual equipment or parts that will eventually form part of the project deliverables (e.g. prototype) are regarded as consumables and the relevant cost should also be grouped under "Other Direct Costs".
- 5.2.9 Specifically, project funds cannot be used to cover –
- (a) charges/time cost of existing equipment owned by the implementation organization / industry co-applicant;
  - (b) depreciation/amortization or provisions not representing actual expenses incurred; and
  - (c) general office and IT equipment.
- 5.2.10 For general office and IT equipment specifically required for the project, they have to be either included in the approved budget with full justifications given or the funding of which has been specifically approved by HKRITA, or otherwise the costs of such items cannot be charged to the project account.

*Other Direct Cost*

5.2.11 Project funding can be used to cover:

- (a) external consultancy;
- (b) purchase of consumables and technology licences;
- (c) promotion and marketing activities for disseminating project deliverables and technology transfer;
- (d) patent registration fee up to HK\$250,000 per project; and
- (e) external audit fees as required by the project agreement.

5.2.12 Project funding cannot be used to cover other costs like:

- (a) building facilities (including office, laboratory, accommodation) – rates, rental, renovation, and operation, repair and maintenance expenses.
- (b) costs of setting up office or forming association/consortium.
- (c) utilities – charges for electricity, gas, water, telephone and fax.
- (d) transport - shuttle bus services and home to workplace traveling expenses.
- (e) general administration and office expenses.
- (f) staff-related costs – provident fund handling charges, staff training and development costs and staff facilities.
- (g) entertainment expenses, and any prizes, either in the form of cash or other types of souvenirs.
- (h) advertisement (except for disseminating project deliverables, or recruitment of staff listed in the approved budget or subsequently approved by HKRITA).
- (i) organization of trade missions and participation fees at study/trade missions for individuals/companies<sup>3</sup>.
- (j) charges for non-R&D services (e.g. accounting, personnel, procurement, library, security, cleansing, legal, and central and departmental administrative support) provided by the implementation organization / industry co-applicant or their contractors/agents.
- (k) costs related to prior/subsequent year(s)/period(s) adjustment(s).

(l) capital financing expenses, e.g. mortgage and interest on loans/overdrafts.

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

*Administrative Overheads*

5.2.14 For Platform / Seed Research Projects and PSTS Projects undertaken by local universities (for UGC-funded institutions only) and the Vocational Training Council, the application can include administrative overheads up to 15% of the ITF funding requested (i.e. net of administrative overheads). For Collaborative Research Projects, the administrative overheads will be calculated at 15% of the approved project cost. The industry co-applicant is required to pay its share of administrative overheads proportional to its contribution to the project. For example, if the industry co-applicant contributes 50% the project cost, it will be required to contribute 50% of the administrative overheads while ITF contributes the remaining.

## Chapter VI

### *Project Monitoring and Disbursement of Grants*

#### **6.1** *Progress and Final Reports*

- 6.1.1 All projects are monitored against their stated milestones by HKRITA, with the support of experts outside HKRITA and, where appropriate, through the peer review mechanism. The implementation organisations have to submit half-yearly progress reports and a final report against the stated milestones 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 reports should be prepared in the standard format and submitted through ITCFAS. In-depth technical details should be provided to facilitate assessment. For projects under the Collaborative Research Programme, minutes of meetings of the steering committees of individual project held during the period covered by the progress report have to be submitted as Annexes to the report. When preparing the Statement of Income and Expenditure for the progress report, please refer to paragraphs 4.3 and 4.4 of Chapter IV for details. Details of the commercialization plan of project results will be required to be reported in the last progress report and final report. HKRITA may organize visits or progress review meetings to examine the progress of a project. The progress and final reports (except Collaborative Research Projects) have to be vetted and endorsed by the Technology Committee of HKRITA. Any delay in submission of report(s) may affect the Project Coordinator's future applications for funding support from HKRITA.
- 6.1.2 For projects under PSTS, an evaluation report within a period of six months after project completion is required to report how the project facilitates the realisation and commercialisation of the R&D results, using the latest version of the proforma available from ITF's website.
- 6.1.3 Upon receipt of a final report or an evaluation report of a project, HKRITA will assess the effectiveness of the project by comparing the project results against its original objectives and targets (both technical and financial) as set out in the project proposal. Feedback from the project teams, their partners/sponsors/supporting organizations, the relevant business sector, and the experts that have assisted in the project assessment would be sought. Upon request by HKRITA, Project Coordinators are required to provide timely clarification and/or additional information to substantiate the content of final report.

#### **6.2** *Project Steering Committee*

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 HKRITA. The committee should comprise

representatives of HKRITA, the research institute, the industry sponsor(s) and for PSTS Projects, the public sector and an external reviewer. A steering committee meeting should be held at least once every three to six months. The Project Coordinator is required to submit progress report(s) and/or a final report on the project, including the minutes of the steering committee meetings.

### **6.3 *Disbursement of Grants***

- 6.3.1 Disbursement of grants requested from HKRITA will be done by instalments. For the Platform / Seed Research Programmes, the first instalment will only be effected when all the required documents have been submitted and at least half of the cash sponsorship and other sources of financial contribution to the project, if applicable, are in place. Unless circumstances justify otherwise, other instalments of the grants, if any, will be disbursed only if the project is able to meet the prescribed milestones and HKRITA is satisfied with its progress and that there is evidence showing due contribution by the sponsor(s), if any, to the project.
- 6.3.2. For the Collaborative Research Programme, the first instalment will only be effected when all the required documents have been submitted and the industry co-applicant has made cash or in-kind contribution of at least 30% of its pledged cash or in-kind contribution to HKRITA. Subsequent instalments, if any, will be disbursed only if the project is able to meet the prescribed milestones and HKRITA is satisfied with its progress and there is evidence showing due contribution by the company to the project.
- 6.3.3. For projects under PSTS, the approved grant will normally be disbursed upfront upon the project commencement.
- 6.3.4. HKRITA reserves the right to withhold any further payment to the project if there is any delay in submission of progress report or collection of industry sponsorship from the implementation organisation.
- 6.3.5 In addition, HKRITA reserves the right to withhold a sum of retention money of 5% of the fund if there is any record of non-compliance with the terms and conditions of the project agreement.

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

- 6.4.1 HKRITA may terminate a project or suspend ITF fund at any time for reasons which include, inter alia, lack of progress of the project in a material way, slim chance of completion of the project in accordance with the project proposal, the original objectives of project 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, or HKRITA seeing fit to terminate the project in public interest.



- 6.4.2 The financial position reported in each annual / final audited accounts should tie in with the technical progress/results of that reporting period(s)/year(s).

**6.5 *Return of Residual Funds***

The implementation organisation should return to HKRITA 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. HKRITA may take such action as may be deemed necessary in case of unreasonable delay in the return of residual funds and interest income to HKRITA.

**6.6 *Post-Project Evaluation Report***

For Platform and Collaborative Projects, a post-project evaluation report up to a period of five years is required to report on the efforts in publicizing (subject always to any confidentiality obligations specified in the project agreement) and technology transfer of the project deliverables and to provide quantitative measurement on the adoption of the project results by the industry. The report should be prepared in the format as specified by ITC and submitted through the ITCFAS. The outcome of the R&D work and the post-project evaluation will be considered in future applications from the same applicant or the same Project Coordinator.

## Chapter VII

### *Procurement and Recruitment*

#### **7.1 Procurement Procedures**

7.1.1 The designated local public research institute should ensure that all procurements for goods and services are carried out in an open and fair manner and must comply with the following procurement procedures unless HKRITA agrees otherwise.

| Aggregate value of each procurement | Requirement                             |
|-------------------------------------|---|
| \$50,000 and below                  | Quotations from at least two suppliers  |
| Above \$50,000 to \$1,400,000       | Quotations from at least five suppliers |
| Above \$1,400,000                   | Open tender                             |

7.1.2 As a general rule, services provided by the designated local public research institute and/or the industry co-applicant, e.g. inter-departmental charges, are not allowed to be charged to the project account. HKRITA may however consider approving the charging of such services to the project account on the following basis:

- (a) prior application is made to HKRITA on grounds of operational efficiency, reliability and quality of services etc.;
- (b) the services are not general or administrative support in nature, such as personnel, accounting, security, cleansing, library services etc. as listed above. Examples of allowable services are printing and testing services. Other services should be considered on a case-by-case basis; and
- (c) the charges should only be at cost.

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

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

## 7.2 *Hiring of Project Staff*

The designated local public research institute is 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 Any piece of equipment for the project purchased using ITF funds may be installed in the facilities of a collaborating organisation located outside Hong Kong subject to the following general principles:

- (a) the equipment is under the ownership of HKRITA throughout the project period and for at least two additional years thereafter;
- (b) the equipment is installed in a university or a public research institute (but not a private sector company); and
- (c) the cost of the equipment concerned should not account for a dominant part of the equipment budget (in general, the total cost of all equipment to be installed outside Hong Kong should be less than 25% of the total equipment budget, as a substantial part of the R&D activities is required to be conducted in Hong Kong).

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

7.3.2 Upon completion of the project or termination of the project agreement, the designated local public research institute is required to make available for removal by HKRITA such equipment in which the HKRITA retains title. However, the designated local public research institute will have the right to use the equipment to carry out the project. The risk in the equipment (e.g. loss, damages, liabilities, etc.) will vest and remain with the designated local public research institute upon procurement of the equipment.

7.3.3 For collaborative projects, the title to all equipment procured will vest with HKRITA. The industry co-applicant, however, has the right to use the equipment during the project period. Both HKRITA and industry co-applicant should make the equipment available for ITC and the Director of Audit's inspection upon request within two years after project completion or termination of project agreement.

## **Chapter VIII**

### ***Publicity***

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

8.1.1 For projects under the Platform / Seed Research Programmes, the implementation organisation should try to publicize the project results or any events related to the project through publications, seminars, workshops, conferences and exhibitions, etc, subject always however to any ongoing confidentiality obligations as set out in the project agreement. It should also provide HKRITA with information about the events and the project results so that HKRITA may publish it on the web.

8.1.2 Acknowledgement of the fund support must appear on all equipment, facilities, publicity/media events related to a 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 funded project:

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

## **Chapter IX**

### ***Amendment to the Guide***

- 9.1 HKRITA reserves the right to amend the terms and conditions at any time without any prior notice.
- 9.2 HKRITA reserves the right to determine the terms and conditions should there be any ambiguity or differences in interpretation.