



Hong Kong R&D Centre for Logistics and
Supply Chain Management Enabling Technologies
香港物流及供應鏈管理應用技術研發中心

Guide to R & D Project Applications
from the
Hong Kong R&D Centre for Logistics and
Supply Chain Management Enabling Technologies

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**Guide to R&D Project Applications from the
Hong Kong R&D Centre for Logistics and
Supply Chain Management Enabling Technologies
(LSCM)**

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Chapter I

Introduction

- 1.1 Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM) is established with funding support from the Innovation and Technology Commission (ITC) of the Hong Kong SAR Government. LSCM is set up by three leading universities in Hong Kong namely, The University of Hong Kong, The Chinese University of Hong Kong and The Hong Kong University of Science and Technology. LSCM aims to strengthen collaborative applied research activities between the industry and research organizations and is commissioned to provide a one-stop shop for technology transfer and commercialization.
- 1.2 Funding from LSCM is to support projects that contribute to innovation and technology upgrading in the logistics and supply chain industries. It aims to increase the added value, productivity and competitiveness of our economic activities. LSCM hopes that, through funding support, local logistics and supply chain management companies could be encouraged and assisted to upgrade their technological level and introduce innovative ideas to their business.
- 1.3 LSCM is located at Room 202, Level 2, Block B, Cyberport 4, 100 Cyberport Road, Hong Kong. (Tel: (852) 2299 0551; Fax: (852) 2299 0552).
- 1.4 This Guide will give you the details of the funding support available at LSCM, 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 LSCM. Upon final approval for funding release from ITC, R&D Centre plays the role of project monitor and manager in project progress and fund disbursement.

Chapter II

General Features of R & D Programmes

2.1 Who are eligible to Apply?

2.1.1 Universities, industry support organizations, trade and industry associations, professional bodies, research institutes and local companies (either locally incorporated or established under the statute of the Hong Kong Special Administrative Region) are eligible to apply. The principal applicant organization should be a company incorporated in Hong Kong under Companies Ordinance (Cap.32) and have substantial connection¹ to Hong Kong or a body corporate incorporated in Hong Kong under other ordinances of the Hong Kong Special Administrative Region.

2.2 R & D Programmes and Contract Research Programme

2.2.1 The two R & D Programmes are as follows:

1. Platform Research Programme – Applications are open to universities, industry support organizations, trade and industry associations, professional bodies, and research institutes. This requires cash and/or in-kind² contribution from at least two industry partners for at least 10% of the total project cost.
2. Collaborative Research Programme – Applications are open to private company. This requires a cash and/or in-kind contribution from an industry partner of no less than 30% of the total project cost at the start of the project and gradually increase to over 50% of the total project cost during the project period. The project will be carried out by a public-funded research institute either identified by the applying company or LSCM.

2.2.2 Applications for Platform Research Programme are normally invited twice a year. Vetting criteria are listed in paragraph 3.3 of Chapter III.

2.2.3 Applications for Collaborative Research Programme are opened throughout the year. Vetting criteria are listed in paragraph 3.3 of Chapter III.

2.2.4 Contract Research Projects refer to projects that the R&D Centre undertakes or a company on a specific topic with a full cost recovery basis.

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.

² Any in-kind sponsorship should be valued by the applicant and stated in the application to be endorsed by the Centre.

2.3 Form of Funding Support

2.3.1 For Projects under the Platform Research Programme:

Funding support from LSCM is normally given as a grant (up to a maximum of 90% of the total approved project cost). The net amount requested from the funding represents 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 projects. Funding grants will be disbursed by half-yearly installments to the approved projects. Funding may be used for meeting the manpower, equipment and other direct costs specifically required for the conduct of 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.

2.3.2 For Projects under the Collaborating Research Programme:

The local public-funded research institute will be the recipient organization, and it is expected that most of the project cost is to cover the research institute's project related expenses. Funding support from LSCM is given as a grant, subject to cash and/or in-kind contribution and the monetary value of by the company and research institute amounting to no less than 30% of the total project cost at the start of the project. The assumed monetary value of the background IP should normally not exceed 50% of the total project cost. Funding grants will be disbursed by half yearly installments against satisfactory progress of the project. The net amount requested from the funding represents the net approved project cost after deducting the company's contribution and the monetary value of the background IP to the project and other expected incomes, if any (excluding interest income) during the project period.

2.3.3 A list of unallowable cost items which cannot be charged to the project account is in paragraph 5.2 of Chapter V.

2.4 Industrial Sponsorship

2.4.1 All projects under the Platform Research Programme would require cash and/or in-kind sponsorship from more than one private firm and not related to the applicant organization in terms of ownership or management. The aggregate industry contributions should constitute at least 10% of the total project costs, and the contributions should be made available within the first six months after the project has started.

2.4.2 If an application for Platform Research Programme is successful, all sponsorship has to be in place within the first six months after the project has started.

2.4.3 All projects under the Collaborative Research Programme would require cash and/or in-kind sponsorship from only one sponsor. In case there are more than

one sponsor in a project, the sponsors should form a consortium whose contribution shall account for 30% or more of the total project cost at the start of the project and gradually increase to over 50% of the total project cost during the project period. If the contribution accumulates to more than 50% of the total project cost before the completion of the project, the sponsor/consortium has an option to own all IPs generated from the R&D project, subject to the conditions stated in paragraph 5.2.3 of Chapter V.

- 2.4.4 For contribution from industry partners equipment would be accepted and counted as in-kind contribution. While manpower contribution would be welcomed but would **not** be counted as in-kind contribution in the project account.

2.5 Commercialization and Intellectual Property Rights of R&D Projects under the Platform Research Programme and Collaborative Research Programme

- 2.5.1 The recipient organization is required to collaborate with the LSCM, to disseminate/transfer the project results to industries through workshops or seminars. Please refer to Annex A - Guidelines on IP Arrangements for details.

2.6 Application Procedures

- 2.6.1 Applications must be submitted to LSCM either:
- (a) in hard copy in triplicate (one original plus two duplicate copies) in person or by post. Please also provide a soft copy (preferably in MS Word 2003 or above); or
 - (b) submit to LSCM through the Innovation and Technology Commission Funding Administrative System (<https://www3.itf.gov.hk>).
- 2.6.2 Applicant has to first register as project coordinator of the R&D Centre. To prepare a proposal, a registered project coordinator should select "ITSP - R&D Centre (R&D Projects)" under grant type, and then select "ITSP Tier 1" under Scheme.

Chapter III

Vetting and Assessment Procedures

3.1 Vetting Procedures for Platform Research Programme

3.1.1 Upon receipt of an application, LSCM will check for the completeness of the application and may seek clarification or supplementary information from the applicant. With consultation from ITC, LSCM will prepare observation form for each application. All applications together with observation forms will submit to the Expert Review Panel (ERP) for review. The ERP constituted from a pool of assessors from different sectors: businessmen, technologists, academia and Government officials. They provide the necessary commercial, technical and policy input in the assessment process. All applications, together with the comments from ERP, will then be submitted to the Technology Committee of LSCM.

Below is the Vetting Process for Platform Research Project:

No.	Item
1	Applicant(s) submit their proposals according to the requirements set in the Call for Proposal
2	Centre Secretariat checks for completeness of all the Proposals received. If the Proposal is not considered Ready, information requests may be sent to Applicants.
3	Centre reviews all the proposals with consultation from ITC, and prepares Observation Form for each proposal.
4	Centre Secretariat will draw 6-10 panelists from the ERP members' pool based on the ERP member's area of expertise and interest. TC chairman will serve as the witness for the drawing of ERP panelists. <ul style="list-style-type: none">Centre Secretariat sends all Ready proposals with Observation Forms to the members of the ERP by courier.
5	With reference to ITC assessment framework, ERP members review all the proposals, make comments and recommendations and gives scores for the following four (4) components: <ul style="list-style-type: none">i) Innovation and Technology Componentii) Technical Capabilityiii) Financial Considerationsiv) Existence of a Holistic Plan to Realisatation/Commericalisation <ul style="list-style-type: none">ERP members send all comments to Centre by fax/courier.
6	With reference to ERP's recommendations and scores, Centre Secretariat and ITC will jointly determine Preliminary Scores (all components of the ITC assessment framework) for each proposal and to shortlist proposals for TC vetting.
7	Centre sends letter with the short-lists to Technology Committee (TC) 2 weeks before TC meeting. TC members can request Centre to add other proposals into the shortlists by sending a letter to Centre one (1) week before TC meeting.
8	With reference to ITC assessment framework, TC meets to evaluate all the proposals, taking into considerations of (i) ERP's recommendations and scores; (ii) Preliminary Score; (iii) ITC assessment. <ul style="list-style-type: none">Only short-listed applicants will be called to "standby" for TC meetingFor each proposal, TC Chairman will take into account TC members' opinions

	<p>to conclude a Final Score and Recommendation Decision.</p> <ul style="list-style-type: none"> ▪ If a Proposal is vetted as “Not Recommended” by the TC, notification with reasons will be sent to the Applicant. Process end. ▪ If a Proposal is vetted as “Recommended” by the TC, TC will make recommendation to ITC.
9	<p>Centre Secretariat may, based on TC’s recommendation:</p> <ul style="list-style-type: none"> - instruct Applicant to update the Proposal - negotiate Intellectual Property (IP), terms and conditions with Applicant <p>The Applicant has to submit revised proposal in time</p>
10	<p>Centre Secretariat checks for completeness of the Proposal and forwards the revised Proposal to ITC.</p>
11	<p>Commissioner for Innovation & Technology (CIT) makes decision regarding the Proposal,</p> <ul style="list-style-type: none"> ▪ If CIT approves the Proposal, ITC will notify Centre Secretariat and the Centre Secretariat will inform the Applicant. Process proceeds to contract negotiation. ▪ If CIT does not approve the Proposal, ITC will notify Centre Secretariat. Centre Secretariat will notify Applicant and report back to TC.
12	<p>Contract negotiation and signing</p>

3.1.2 For Platform Research Project, Project team members may be required to attend assessment meetings to present their projects and to answer queries from the Technology Committee of LSCM.

3.1.3 LSCM’s recommendations will be submitted to the Government for approval for the release of grants for projects requesting not more than \$21 million from Government fund. Approval from the Finance Committee of the Legislative Council is required for projects requesting more than \$21 million each from Government fund.

3.2 Vetting Procedures for Collaborative Research Programme

3.2.1 For Collaborative Research Project, in view of the commercial sensitivity of the project, the project will not be vetted by ERP and the Technology Committee of LSCM.

Below is the Vetting Process for Collaborative Research Project:

1	Applicant submit proposal to the Centre.
2	Centre Secretariat checks for completeness of the proposal received. If the proposal is not considered ready, information requests may be sent to applicant.
3	Centre Secretariat reviews the proposal and prepares Observation form together with Centre’s CEO recommendations for the proposal.
4	Centre Secretariat arranges Pre-Panel meeting with Science Advisor and the technical team of ITC; and forward the proposal to ITC Administration team.
5	Centre Secretariat arranges Panel meeting. The Panel constitutes of CIT or the CIT’s delegate, TC Chairman and Centre CEO, where the TC Chairman will serve as the Chairman of the Panel.

6	<p>Panel members meet to evaluate the proposal and make decisions towards the collaborative projects on behalf of the Board.</p> <ul style="list-style-type: none"> ▪ If the proposal is vetted as “No” by the Panel, notification with reasons will send to applicant. ▪ If the proposal is vetted as “Yes” by the Panel, Centre Secretariat may instruct applicant to update the proposal based Panel’s recommendations.
7	Applicant has to submit revised proposal in time.
8	Centre Secretariat checks for completeness of the proposal and forwards the revised proposal to CIT for funding considerations.

3.2.4 LSCM’s recommendations will be submitted to the Government for approval for the release of grants for projects requesting not more than \$21 million from Government fund. Approval from the Finance Committee of the Legislative Council is required for projects requesting more than \$21 million each from Government fund.

3.3 Vetting Criteria

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

- a) The potential of the project to develop enabling and related technologies that support operations and decisions in logistics and supply chains; contribute to innovation and technology upgrading of the economy, deliver economic potential and broaden the scientific and technical knowledge base of the economy;
- b) The project theme in line with the R&D direction developed by the Centre with consultations from industry experts and academia;
- c) Whether there is a demonstrated strong industry need and support for the proposed project;
- d) Whether there is a demonstrated need for the proposed project, for example, support from relevant bureaux/government departments, if applicable;
- e) Whether similar products, technologies or services, are already available in the market, and whether the project is duplicating or likely to duplicate the work carried out by other institutions;
- f) The overall planning, including commercialization business plan, and organizational structure of the project and the technical and project management capability of the project team, i.e. a well developed project schedule with milestones and deliverables, the project team members’ experience, qualifications, track record, and the resources available for the project; and

- g) Whether the proposed budget is reasonable and realistic and whether the project should be funded by other sources.

3.4 Avoidance of Conflict of Interest

- 3.4.1 To avoid conflict of interests, Members of Technology Committee, Finance and Administration Committee, and the ERP who are directly or indirectly related to an application will be required to excuse and refrain from the discussion of that application. This will apply to members who are part of the project team, chairman/president, vice-chairman/vice president, director, advisor and secretary, whether paid or unpaid, or a paid staff of the applicant organization, an implementing organization, a collaborating organization or a sponsoring organization.

3.5 Notification of Results

- 3.5.1 For project which funding support is recommended by the LSCM, the applicant organization may be required to submit a revised application proposal, taking into account the comments of the various Committees and Panel, and LSCM will liaise with the applicant organization for preparation of project cash flow etc. Subject to further vetting by LSCM, the revised application proposal, together with other necessary documents like the cash flow for the project, will be formally approved and appended to the project agreement.
- 3.5.2 For project which funding support is not recommended by the LSCM, notification with reasons will send to applicant.

3.6 Withdrawals

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

3.7 Resubmission

- 3.7.1 A declined application may be resubmitted only if it has been revised substantially or if it has been able to produce additional information to address the comments made by the Technology Committee of LSCM 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.

3.8 Return

3.8.1 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 3.6 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 recipient organization has to sign an agreement with LSCM and comply with all the terms and conditions laid down in the project agreement, this Guide and all instructions and correspondences issued by LSCM from time to time in respect of the project.

4.2 Separate Account and Interest³

4.2.1 For projects under the Platform Research Programme and Collaborative Research Programme, the recipient organization 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 recipient organization who should, until such funds are spent (paid) in accordance with the compliance requirements as specified in paragraph 4.1.1 above/returned to LSCM by the recipient organization, hold the same as trustee for the Government.

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 LSCM 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 recipient organizations are not entitled to charge to the project account any interest expenses or claim any compensation or relief of whatsoever nature against LSCM in the event of any late or withholding of payment of the fund for any whatsoever reason.

4.2.3 The recipient organization may be required to compensate LSCM 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, LSCM will take such action as may be deemed necessary.

³ For Universities, please also refer to the Supplementary Note attached to this Guide

4.3 **Books and Records**

- 4.3.1 The recipient organization 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, 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. 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 recipient organization for at least two years after completion of the project or termination of the project agreement, or as otherwise specified by LSCM within that two-year period. In this connection, CEO of LSCM, Commissioner for Innovation and Technology (CIT) and their authorised representatives will have unhindered access to the books of accounts and records when conducting financial audit and inspection of such books and record sat any time when such books and records are kept have rights to obtain photocopies of such records, if necessary. CEO of LSCM, CIT and their authorised representatives may at its absolute discretion request the recipient organization to make available and/or deliver photocopies of such records to CEO of LSCM, CIT and their authorised representatives at its sole cost and expenses. When so requested in this connection, the organization will be obliged to make available all project books of accounts and records and explain to CEO of LSCM, CIT and their authorised representatives any matters relating to the income, expenditure or custody of any money derived from the project. The CEO of LSCM, CIT and their authorised representatives may carry out value for money studies on any organization in receipt of the grants.

LSCM also reserves the right to require recipient organizations to return misspent amount together with interest income accrued.

4.4 **Reporting Requirements**⁴

- 4.4.1 The recipient organization has to submit to LSCM 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 31 May 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 project or termination date of the project agreement if the total project cost 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 LSCM 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 LSCM except the correction of arithmetic errors or adjustments as requested by LSCM. 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 LSCM will take into account in considering future applications from the same organization or the same project team members.

⁴ For Universities, please also refer to the Supplementary Note attached to this Guide

4.5 **Auditing Requirements**

- 4.5.1 The requirement to submit annual/final audited accounts is to assure LSCM 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 recipient organization 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 Innovation and Technology Commission.
- 4.5.2 The recipient organization 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 CEO of LSCM, CIT 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 recipient organization 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 Recipient organizations are 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 LSCM 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 \$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 Requests⁵

- 5.1.1 An approved project is required to be carried out strictly in accordance with its proposal appended to the fund agreement. Any modification, amendment or addition to the project or the agreement, including change of the project commencement or completion date⁶, key project staff (including project coordinator, deputy project coordinator and project investigator) or key equipment⁷, scope, methodology, budget (other than circumstances set out in paragraph 5.1.2 below) or cash flow projection, will require prior specific written approval by LSCM. The project coordinator should inform the LSCM well in advance by 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 LSCM for information and clarification on all aspects of the project; and attending progress meetings on the project.
- 5.1.2 For budget control purpose, the actual expenditure for any individual item may exceed at most 10% of the original budgeted expenditure for that item if this does not result in any increase in the overall total approved project cost and the total amount of the grants requested and that all expenditure follows the relevant requirements set out in this Guide. Justification is required to be disclosed for any spending in excess of the budget items in the relevant half-yearly progress report(s) and/or final report. Notwithstanding this, prior written approval is required to be sought from LSCM if budgeted expenditure is to be transferred to any **unbudgeted expenditure item** (e.g. new/alternate equipment item, new project staff, new/alternate consumable item). Such request should 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 LSCM.

⁵ For universities, please also refer to the Supplementary Note attached to this Guide.

⁶ 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.

⁷ Key project staff and key equipment are identified in the project proposal appended to the project agreement.

5.2 Unallowable Costs

General

- 5.2.1 All project funds (including the grants allocated to recipient organizations, sponsorship and other income) 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 equipment procured specifically for carrying out the project; and
 - c. other direct costs which are specifically incurred for carrying out the project.
- 5.2.2 All expenditure to be covered by the project funds must be exclusively used for the project and incurred within the project period, except otherwise approved by LSCM. 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 LSCM and should not be included in the budget.

Manpower⁸

- 5.2.3 Unless otherwise agreed by LSCM, the fund will not pay any emolument to a person who is already on the payroll of Government or a Government subvented body/institution. This principle should apply irrespective of whether the relevant service/work is carried out within or outside normal working hours of the person concerned.
- 5.2.4 Subject to paragraph 5.2.3 above, project coordinators, deputy project coordinators and project team members may charge their efforts to the project on a full-time basis or a pro-rata/hourly basis provided that a monthly time sharing record of their working time devoted to the project is maintained.
- 5.2.5 Notwithstanding paragraph 5.2.4 above, 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 LSCM's prior approval has been obtained. In case only a certain percentage of the working time of the staff is deployed for the project, his/her salary can be charged on a pro-rata/hourly basis provided that a monthly time sharing record devoted by the staff to the project is maintained.
- 5.2.6 Specifically, project funds cannot be used to cover the following expenditure items:
- (a) annual salary increment, except cost of living adjustment at a rate comparable with and applicable to civil service.
 - (b) gratuities, fringe benefits and allowances other than employer's contribution to the Mandatory Provident Fund. Such fringe benefits and

⁸ For universities, please also refer to the Supplementary Note attached to this Guide.

allowances include expenses on housing (include nominal rental for quarters), education, training, passage and traveling⁹, food, medical, dental, insurance, severance pay, overtime and untaken leave, etc.

Equipment

- 5.2.7. 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 prorate basis under each project, the applicant organization 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. Applicants 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 applicant organization 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”.
- 5.2.8 Specifically, project funds cannot be used to cover:–
- (a) rental/time cost of existing equipment owned by the recipient organization; and;
 - (b) depreciation/amortization or provisions not representing actual expenses incurred.
- 5.2.9 For general office and IT equipment specifically required for the project, they have to be either included in the approved budget or the fund of which has been specifically approved by LSCM, or otherwise the costs of such items cannot be charged to the project account.

⁹ 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 categorized of “Other Direct Costs” in the budget of the application proposal for LSCM R&D Centre’s 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 recipient or the implementing organization. Any traveling expenses incurred for such purposes should account for no more than 5% of the amount of funds requested from LSCM R&D Centre and cover the cost of economy class fares (if any) incurred by the project team members.

*Other Direct Cost*¹⁰

5.2.10 Project funds cannot be used to cover:

- (a) building facilities (including office, laboratory, accommodation) – rates, rental, renovation, and operation, repair and maintenance expenses.
- (b) costs of setting up office or forming association.
- (c) utilities – charges for electricity, gas, water, telephone 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 LSCM).
- (i) organization of trade missions and participation fees at study/trade missions for individuals/companies¹¹
- (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.

5.2.11 The above list is not exhaustive. Recipient organizations should consult LSCM if they have any doubts about whether the item could be charged to a project account.

¹⁰ For universities, please also refer to the Supplementary Note attached to this Guide.

¹¹ Please also see paragraph 4.4.2 of Chapter IV.

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 LSCM, experts outside LSCM and, where appropriate, through the peer review mechanism. Recipient organizations, or the participating company and its public-funded research institute partner where appropriate, have to 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 LSCM. In-depth technical details should be provided to facilitate assessment. 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.

Upon request by LSCM, recipient organizations are required to provide timely clarification and/or additional information to substantiate the content of progress reports. Details of the commercialization plan of project results will be required to be reported in the last progress report and final report. LSCM may organize visits or progress review meetings to examine the progress of a project. The progress and final reports have to be vetted and endorsed by the Technology Committee of LSCM.

6.1.2 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 the Grants¹²

6.2.1 Disbursement of the grants will be done by instalments. For the Platform Research Programme, the first instalment will only be effected when all the required documents have been submitted and all cash sponsorship is in place. For the Collaborative Research Programme, the first instalment will only be effected when all the required documents have been submitted and all cash sponsorship (cum the monetary value of background IP in case of Collaborative Research Programme with Research/Technology Partners) is 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 LSCM is satisfied with its progress and that there is evidence showing due contribution by the sponsor(s), if any, to the project. LSCM 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.

¹² For disbursement of the grants to projects under the Collaborative Research Programme, please see paragraph 2.3.2 of Chapter 2.

6.2.2 For some projects, LSCM may consider it necessary to withhold a sum of retention money of 5% of the fund, until all the prescribed milestones have been completed satisfactorily and all the requirements set down by LSCM have been accomplished.

6.2.3 In addition, LSCM 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.

6.3 **Final Report**

6.3.1 Within two months from project completion date or termination date of the project agreement, the recipient organization has to submit a final report covering the period from project commencement date or termination date of the project agreement, in which, among other things, quantifiable results of the project (both technical and financial) as well as further details for the commercialization of the project results have to be set out. The final report should be prepared in the standard format stipulated by LSCM and submitted through ITCFAS. In-depth technical details should be provided to facilitate assessment.

6.3.2 Upon receipt of the final report of a project, LSCM 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, the relevant business sector, and the experts that have assisted in the project assessment would be sought. Upon request by LSCM, recipient organizations are required to provide timely clarification and/or additional information to substantiate the content of final report.

6.3.3 The final report will be considered by LSCM. The project coordinator and/or other project team members may be invited to present the project results.

6.4 **Suspension or Termination of Funding Support**

6.4.1 LSCM may terminate a project or suspend 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 LSCM sees fit to terminate the project in public interest.

6.5 Return of Residual Funds

- 6.5.1 The recipient organization should return to LSCM 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. LSCM may take such action as may be deemed necessary in case of unreasonable delay in the return of residual funds and interest income to LSCM.

6.6 Post-Project Evaluation Report

- 6.6.1 The recipient organization may be required to submit a post-project evaluation report for its project to report on the efforts in publicizing and technology transfer of the project deliverables, and to provide quantitative measurement on the adoption of the project results by the industry. The report can be in whatsoever form and format as specified by LSCM.

Chapter VII

Procurement and Recruitment

7.1 Procurement Procedures¹³

7.1.1 The recipient organization should ensure that all procurements for goods and services are carried out in an unbiased and fair manner and must comply within the following procedures unless LSCM agrees otherwise.

- (a) For every procurement of the Equipment, other goods or services the aggregate value of which does not exceed HK\$50,000.00, written quotations of price from at least two suppliers or service providers shall be obtained. The procurement contract should, unless otherwise agreed by CIT, be awarded to the supplier or service provider submitting the lowest quotation.
- (b) For every procurement of the Equipment, other goods or services the aggregate value of which exceeds HK\$50,000.00 but is below HK\$1,430,000.00, written quotations of price from at least five suppliers or service providers shall be obtained. The procurement contract should, unless otherwise agreed by CIT, be awarded to the supplier or service provider submitting the lowest quotation.
- (c) For every procurement of the Equipment, other goods or services the aggregate value of which is more than HK\$1,430,000.00, there shall be open tendering. The procurement contract should be awarded to the supplier or service provider in accordance with the terms of the tender.

7.1.2 In case an applicant organization intends to procure goods or services from one company/organization/individual, it has to provide details, justifications and its relationship with the company/organization/individual in the application form for not following the open procurement process set out at paragraph 7.1.1 above. If the application is approved, subsequent approval from LSCM will not be required. Where goods or services are procured from collaborating party, details should be given in Section D4 (Collaboration with Other Organizations) of the application on the ITCFAS.

7.1.3 All quotation and tendering documents should be kept by the recipient organization for CEO of LSCM, CIT and their authorised representatives' 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 LSCM Centre within that two-year period.

7.2 Hiring of Project Staff

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

¹³ For universities, please also refer to the Supplementary Note attached to this Guide.

7.3 **Title to Equipment**¹⁴

- 7.3.1 For projects under the Platform Research Programme, the title to equipment will vest with LSCM. Upon completion of the project or termination of the project agreement, the recipient organization is required to make available for removal by LSCM such equipment in which LSCM retain title. However, the recipient organization will have the right to use the equipment to carry out the project and the risk in the equipment (e.g. loss, damages, liabilities, etc.) will vest and remain with the recipient organization upon procurement of the equipment.
- 7.3.2 For projects under the Platform Research Programme, unless otherwise agreed or specified by LSCM, the recipient organization has to keep all equipment costing less than and equal to HK\$500,000 purchased for the project for at least two years after project completion or termination. The Project Co-ordinator should make such equipment available for CEO of LSCM, CIT and their authorised representatives' inspection upon request.
- 7.3.3 For projects under the Collaborative Research with Industry, the title to all equipment procured will vest with LSCM. The public-funded research institute that initiates the procurement of /procures the equipment and/or the participating company, however, has the right to use the equipment during the project period. The participating company and its partner research institute should make the equipment available for CEO of LSCM, CIT and their authorised representatives' inspection upon request within two years after project completion or termination of project agreement.
- 7.3.4 For projects under the Contract Research Programme, the title to all equipment procured will vest with the company. The participating company should make the equipment available for CEO of LSCM, CIT and their authorised representatives' inspection upon request within two years after project completion or termination of project agreement.

¹⁴ For universities, please also refer to the Supplementary Note attached to this Guide.

Chapter VIII

Publicity

8.1 Publicity and Acknowledgement

8.1.1 The recipient organization should try to publicize the project results or any events related to the project through publications, seminars, workshops, conferences and exhibitions etc. Where appropriate the applicant should try to generate income by charging fees for project deliverables so as to coup wholly or partly the cost of the deliverables. It should also provide LSCM with information about the events and the project results so that LSCM may put it on the web.

8.1.2 Acknowledgement of the funding 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 an funded project:

“Any opinions, findings, conclusion or recommendations expressed in this material/event (or by members of the project team) do not reflect the views of the Government of the HKSAR, the Innovation and Technology Commission and the Hong Kong R&D Centre for Logistics an Supply Chain Management Enabling Technologies.”

8.2 Project Promotion Requirements for Platform Research Programme

8.2.1 Recipient organizations are required to budget at least one project dissemination event of not less than HK\$25,000 for showcasing project technologies and information at the LSCM Annual Conference exhibitions or other ITC supported events.

8.2.2 Recipient organizations are required to provide project deliverables and prototypes as well as project dissemination materials/information for exhibitions and solution demo’s at the LSCM Technology Showroom.

Chapter IX

Amendment to the Guide

- 9.1 Hong Kong R&D Centre for Logistics and Supply Management Enabling Technologies Limited reserves the right to amend the terms and conditions at any time without prior notice.

**Hong Kong R&D Centre for Logistics and
Supply Chain Management Enabling Technologies
November 2011**

Guidelines on IP Arrangements

1. Introduction

- 1.1 Intellectual property (IP) includes patent, design, trademark, copyright, trade secret, etc. LSCM, through carrying out different types of research projects, is expected to generate some form of new IP. In generating such IP, different parties (industry partners, research/technology partners) involved in the research projects may make contribution, e.g. in the form of cash and/or in-kind sponsorship, background IP or other form, during the research process and they may expect to have a claim on the IP rights generated from the project. While each case will have to be considered on its own merits, it is also important that LSCM adopt a broadly consistent approach in dealing with IP issues, including the IP rights¹⁵ and management responsibilities¹⁶. This set of guidelines aims to set out such a broadly consistent approach for LSCM to adopt. The guidelines will be regularly reviewed and updated as appropriate.

¹⁵ IP rights include the right to use, right to share benefits, and right to hold title of the IP.

¹⁶ IP management responsibility includes disclosure of inventions, record keeping, maintenance and enforcement of IP.

2. Guiding Principles

2.1 Guidelines for IP Arrangements are based on the following guiding principles:-

- (a) the IP arrangements should be made to facilitate, but not prohibit, effective transfer of technologies developed by LSCM;
- (b) to encourage participation by the industry and other research/technology partners in R&D projects, the 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 contribution;
- (c) the IP arrangements should facilitate an efficient and effective management of IP; and
- (d) the IP arrangements should contribute to building up the R&D Centre's core competence and sustainable operations.

3. General Guidelines for IP Arrangements for Platform Research Projects

3.1 *Nature of “platform research projects”*

3.1.1 “Platform research projects” refer to those that are **primarily aimed to benefit the industry or a certain sector of industry** in a general manner.

3.1.2 There should be at least two industry partners that should make contribution to the projects. As a general rule, the aggregate industry contributions should constitute at least 10% of the total project costs, which can be in cash and/or in-kind (subject to the conditions set out in paragraphs 3.1.3 and 3.1.4 of Annex A below), and such contributions should be made available within the first six to nine months after the project has started. In this connection, the total project costs should be the sum of all approved expenditures (including expenditure items to be covered by in-kind contributions, if any) and the approved institution administrative overheads¹⁷.

3.1.3 In-kind contributions in the form of equipment and consumables would be accepted and counted as industry contributions provided that:

- (a) the in-kind contribution is **essential** to and **specific** for the project and should be contribution by the industry. Donation by the Centre itself will **not** be counted as industry contribution;
- (b) the value of the in-kind contribution should be presented in both income and expenditure sides of the project budget;
- (c) whenever any in-kind contribution is received, it should be reported in the progress/final reports of the projects; and
- (d) **documentary proof** to substantiate the value of contribution should be provided. Where documentary proof is not available, reasons should be given and the basis for making the estimation should be clearly specified in the project proposal.

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

¹⁷ Local universities, the Hong Kong Institute of Vocational Education (VCE) and the R&D Centres (except the ICT R&D Centre) are allowed to charge administrative overheads for undertaking ITF projects. The administrative overheads to be charged should be capped at 15% of the total project costs (net of administrative overheads).

3.2 *Title of IP generated and sharing of benefits*

- 3.2.1 As the primary objective of platform research projects is to benefit the industry as a whole, the title of the IP derived from such projects (foreground IP) should vest in LSCM concerned in general.
- 3.2.2 In the case where the project applicant is from a local university, the title of the IP can vest in applicant's university if such an arrangement can facilitate the promotion of technology transfer to the industry. Under special circumstances where public interests are involved or where the public mission of the ITF needs to be fulfilled, the university may be required to grant unconditionally and irrevocably to the Government a non-exclusive perpetual royalty-free worldwide and sub-licensable license to exploit, deal with or otherwise dispose of the rights.
- 3.2.3 LSCM shall retain the right to commercialise the results of R&D works regardless of who owns the IPs.

Sharing of benefits by industry partners

- 3.2.4 To encourage more contributions for the industries, the applicant organization may nevertheless negotiate with interested companies, in particular the sponsors, regarding the sharing of intellectual property, licensing arrangement etc. The sponsors can have priority use of the project results. The specific IP benefit sharing arrangements for each project should be clearly set out in the project proposal.

Sharing of benefits by local universities

- 3.2.5 For project that is carried out by a local university, the university shall own the title of the IP (foreground IP) derived from the project. In this case, both LSCM and the university have rights to commercialise the foreground IP. Hence, towards the end of the project, the project team requires to work with LSCM to jointly determine the following and seek approval from the Finance and Administration Committee.
- (a) Licensable deliverables or IPs generated from the project
 - (b) License fee, terms, documentation for the licensable deliverables or IPs
- 3.2.6 If the foreground IP is successfully commercialized by the university, the university shall share 30% of the license fee to LSCM. Similarly, if the foreground IP is successfully commercialized by LSCM, LSCM shall share 30% of the license fee to the university.

Sharing of benefits by research partners and non-local universities

- 3.2.7 In case a research partner (whether local or non-local) or a non-local university participates in a platform project and puts in any background IP and other resources (including the remuneration of the principal investigator (PI) and all other in-kind contribution, if any) into the project as input at the project proposal stage without separately charging these items in the project account, and if the project is subsequently successfully commercialised by LSCM/local university, LSCM/local university could negotiate with the research partner/non-local university and the industry partner for the specific IP and benefit sharing arrangements on a case-by-case basis before the project begins, having regard to the guiding principles set out in paragraph 2.1 of Annex A above. The benefit sharing arrangement to be agreed should be commensurate with the level of the respective contributions towards the project, and be endorsed by LSCM.

3.3 Exclusive licence and Buy-out arrangements

- 3.3.1 Given the nature of “platform research projects”, exclusive licence and buy-out arrangements for the foreground IP are not allowed unless otherwise approved by CIT.

4. Contract Research Projects

4.1 *Nature of “contract research project”*

4.1.1 “Contract research project” refer to projects in which a **company pays LSCM the full costs for the R&D work done.**

4.2 *Title of IP generated and benefits generated*

4.2.1 As all the costs of a contract research project are borne by the sponsoring company, the IP generated from such a project and benefits generated from such IP will rest with the company concerned. LSCM will not claim any IP rights generated from the R&D project.

5. Collaborative Research Projects with Industry

5.1 *Nature of “collaborative research projects with industry”*

5.1.1 “Collaborative projects with industry” refer to those projects in which an **industry partner makes a contribution**, which can be in cash and/or in-kind (subject to the conditions set out in paragraphs 3.1.3 and 3.1.4 of Annex A above), that **constitutes no less than 30% of the total project costs at the start of the project.** In this connection, the total project costs should be the sum of all approved expenditures (including expenditure items to be covered by in-kind contributions, if any) and the approved institution administrative overheads¹⁸.

5.2 *Title of IP generated, right to use and sharing of benefits*

5.2.1 The title of the IP generated will normally rest with LSCM.

5.2.2 The industry partner will automatically be granted an exclusive license to use the project IP free of charge for a defined period which is to be determined by a Panel¹⁹, having regard to the nature of the technology/technologies involved, and the actual level of contribution by the industry partner to the total project costs.

5.2.3 Industry partner is encouraged to gradually increase its contribution to more than 50%, with timeframe as appropriate, during the project period. In case the industry partner’s contribution accumulates to **more than 50%** of the total project costs before the completion of the project, it will have an option to own all IPs generated from the R&D project, subject to the following conditions:

¹⁸ Please see note 17 on page 25

¹⁹ The Panel constitutes of CIT or the CIT’s delegate, TC Chairman and Centre CEO, where the TC Chairman will serve as the Chairman of the Panel

Supplementary

- (a) LSCM will still enjoy the beneficiary rights of the IPs generated (as per paragraph 5.2.4 of Annex A below). LSCM will have the right to take appropriate actions against the industry partner if the latter does anything which jeopardizes LSCM's beneficiary rights of the IPs concerned;
- (b) The industry partner will have to return the title of the project IPs to LSCM if the industry partner fails to commercialise the IPs within a certain period of time to be agreed by both parties;
- (c) LSCM will have the first right of refusal in case the industry partner wants to dispose of or sell to others the project IPs;
- (d) LSCM will have the right to collect from the industry partner a certain amount of guaranteed income for the commercialization of the project IPs;
- (e) LSCM will retain a perpetual royalty-free right to use any IPs generated from the project for further research purposes; and
- (f) detailed terms and conditions should be established at the outset of the project and be properly spelt out in the agreement signed between LSCM and the industry partner.

In case the industry partner chooses not to own any of the IPs generated from the project, ownership of all such IPs will be taken up by LSCM.

Sharing of benefits by industry partners

- 5.2.4 The industry partner has the right to share the benefits generated from commercialisation of IPs generated from the project (including royalty fees), with the sharing ratio subject to negotiation between LSCM, other participating R&D partner(s) and the industry partner having regard to the respective proportion of their contributions to the total project costs. In this context, the benefits refer to the sales revenue generated from commercialisation of project IPs. The benefit sharing arrangements should be endorsed by the Panel.

Sharing of benefits by both local and non-local universities and research partners

- 5.2.5 If a university or a research partner, whether local or non-local, participates in a collaborative project and puts in any background IP and other resources into the project as input **without** separately charging these items in the project account, LSCM could negotiate with the university/research partner and the industry partner for the specific IP and benefit sharing arrangements on a case-by-base basis before the project begins, having regard to the guiding principles set out in paragraph 2.1 of Annex A above. The benefit sharing arrangements to be agreed should be commensurate with the level of the respective contributions towards

the project, and be endorsed by the Panel.

- 5.2.6 In relation to paragraphs 5.2.4 and 5.2.5 of Annex A above, the specific IP benefit sharing arrangements for each project should be clearly set out in the project proposal.

5.3 Buy-out option

- 5.3.1 In case the project IP is not owned by the industry partner under the conditions of paragraph 5.2.3 of Annex A above, the industry partner still has the right to buy out the IP generated by the project, including all the equipment, within the period of exclusive licence granted as per paragraph 5.2.2 of Annex A above. The consideration for buying-out should be at a premium over the total project costs. The level of premium should be determined by negotiation between LSCM and the industry partner on a case-by-case basis before the project starts and should be endorsed by the Panel.

- 5.3.2 The buy-out arrangement should include retention of a royalty-free right for LSCM to use, for future R&D purposes only, the IP generated from the project.

5.4 Licensing of other parties

- 5.4.1 In case the project IP is not owned by the industry partner under the condition of paragraph 5.2.3 of Annex A above and the industry partner chooses not to exercise the buy-out option after the period of exclusive license it has enjoyed in accordance with paragraph 5.3.1 of Annex A above, LSCM will continue to hold the title of the project IP, and may grant licence to other parties to use such IP after the exclusive licence expires. In that case, the industry partner has the right to share benefits from the commercialisation of licensing to other parties in accordance with paragraph 5.2.4 of Annex A above.

6. LSCM to decide case by case

- 6.1 The preceding paragraphs are intended to serve as general guidelines. Details of the IP arrangement will be decided by LSCM on a case by case basis, LSCM welcomes the discussion with the universities, industry support organizations, trade and industry associations, professional bodies, and research institutes.

**Supplementary Note (for Universities) to
Guide to R & D Project Applications from
the Hong Kong R&D Centre for
Logistics and Supply Chain Management Enabling Technologies**

1. Introduction

- 1.1 In undertaking R & D projects of the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM R&D Centre), universities shall comply with all the requirements and responsibilities as set out in the “Guide to R & D Project Applications from the Hong Kong R&D Centre for Logistics and Supply Chain” (hereafter refer to as Guide), all the terms and conditions laid down in project agreements as well as all instructions and corresponding issues by LSCM R&D Centre in respect of each project, except for the following specific items which the universities shall follow the requirements as set out in paragraphs 2.1 to 8.1 of this supplementary note.
- 1.2 In addition, universities are allowed to charge administrative overheads to funded projects. Details are set out in paragraphs 8.1 and 8.2 of this supplementary note.

2. Separate Account and Interest – Paragraph 4.2, Chapter IV of the Guide

- 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 LSCM R&D Centre 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, any accrued interest (Note 1 & 2)</p> <hr/> <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 project's fund balances.*
- (2) *As the amount of unpresented cheques would have been transferred to the current account, therefore the effect of the unpresented cheques in 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 project's funds balances are placed in bank deposits (fixed deposits and savings accounts only.)*

3. Reporting requirements - Paragraph 4.4. Chapter IV of the Guide

- 3.1 Universities can 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.
- 3.2 The administrative overheads thus calculated (refer to paragraphs 8.1 and 8.2 below) should be included as receivable and payable in the financial statements for the final report and the final audited accounts of each project.

4. Change Requests – Paragraph 5.1 Chapter V of the Guide

- 4.1 - For Universities, an accumulative 30% virement into/out of the categories of manpower, equipment and other direct costs (administrative and operating expenses) of ORIGINALLY approved project budget is allowed and would not require prior approval of LSCM R&D Centre. The virements made, and the underlying reasons however, have to be reported in relevant progress reports to LSCM R&D Centre. Any single additional deviation (upward or downward) exceeding 30% of the ORIGINALLY approved project budget would require prior written approval from LSCM R&D Centre.

- 4.2 The virement 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 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 relevant progress reports and final report of the project;
 - (g) if necessary, LSCM R&D Centre would examine the details contained in the progress/final reports through project visits or inspection;
 - (h) LSCM R&D Centre reserves right to require universities to return the mis-spent amount together with interest income accrued to LSCM R&D Centre, including mis-spent amount on items which do not require prior approval and reported in the progress/final reports; and
 - (i) if there are very major irregularities involved, LSCM R&D Centre may terminate the funding support to the project in question.
- 4.3 The detailed operation is set out below.

Manpower

4.3.1 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 LSCM R&D Centre before the project is approved.
- (b) inclusion of any new item(s) exceeding \$500,000 (cumulative) would require prior approval of LSCM R&D Centre; and
- (c) budgetary changes exceeding \$500,000 (cumulative) to any manpower item(s) – new or existing, would require prior approval.

Equipment

4.3.2 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 LSCM R&D Centre before the project is approved. A piece of equipment costing more than \$500,000 would automatically be counted as key equipment. Any key equipment would need to be approved by LSCM R&D Centre before it is procured;
- (b) inclusion of any new item(s) exceeding \$500,000 (cumulative) would require prior approval of LSCM R&D Centre;
- (c) budgetary changes exceeding \$500,000 (cumulative) to any equipment item(s) – new and existing, would require prior approval; and
- (d) any change in type (not model) or deletion of key equipment would require prior approval of LSCM R&D Centre.

4.3.3 Any new items under the equipment category have to be R & D equipment purchased exclusively for use by the project (a small portion of time nevertheless can be used for educational/training purposes). Non-specific equipment item, such as miscellaneous equipment, would not be allowed for inclusion in the budget.

Other Direct Cost

4.3.4 On other direct costs:–

- (a) inclusion of any new item(s) exceeding \$100,000 (cumulative) would require prior approval of LSCM R&D Centre; and
- (b) budgetary changes exceeding \$100,000 (cumulative) to any item(s) – new or existing, would require prior approval of LSCM R&D Centre.

4.3.5 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.

4.3.6 Consultancy should be classified as an item under this budgetary category.
Manpower – Paragraph 5.2.3, Chapter V of the Guide

5. Manpower

5.1 The manpower cost of the 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 part-time basis as appropriate provided that a monthly time-sharing record devoted by the staff to the project is maintained.

6. Procurement Procedures – Paragraph 7.1 Chapter VII of the Guide

6.1 Universities may choose to comply with their established/current standard procurement procedures.

7. Title to Equipment – Paragraph 7.3, Chapter VII of the Guide

7.1 The title to equipment whose unit price exceeds HK\$500,000 shall be passed to the university but LSCM R&D Centre reserves the right to require the university to release and make available for removal by LSCM R&D Centre within three years from the completion of the project or upon termination of project agreement.

8. Administrative Overheads

8.1 A local university, when participating in an R&D project and undertaking a substantial portion of the R&D work, is allowed to include administrative overheads as part of the project cost in the project budget. The administrative overheads to be included in the project budget can be at most 15% of the fund requested (net of administrative overhead) and, for the Collaborating Research Programme, not less than 15% of the cash contribution from the participating company. Such administrative overheads would cover expense items including, but not limiting to, the following:-

- (a) rental/time cost of existing equipment of the university.
- (b) maintenance cost of existing equipment of the university.
- (c) depreciation/amortization or provisions not representing actual expenses incurred.

Supplementary

- (d) general office and IT equipment of the university.
- (e) building facilities (including office, laboratory, accommodation) of the university - rates, rental, renovation, and operation, repair and maintenance expenses.
- (f) utilities - charges for electricity, gas, water, telephone and fax.
- (g) general administration and office expenses of the university.
- (h) university staff-related costs - provident fund handling charges, staff training and development costs and staff facilities.
- (i) costs related to university staff recruitment.
- (j) charges for services provided by the university or its contractors/agents – accounting services, personnel services, procurement services, library services, security services, cleansing services, legal services, and central and departmental administrative services.

The administrative overheads would be disbursed to the university upon request, and after receipt of final audited accounts.

- 8.2 Subject to the ceiling of the funding approved for an R&D project, LSCM R&D Centre's share of the administrative overheads would be capped at 15% of the funding utilized for the project, i.e. total disbursed funding less the residual funds remaining in the project account (excluding interest income). The administrative overheads thus calculated should be included as receivable and payable in the financial statement for the final report and the final audited accounts of each project. As the administrative overheads would have covered the relevant expenses as listed above, such expenses should not be separately included and charged in the project budget and/or account of the R&D project.