

**立法會**  
**Legislative Council**

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**Panel on Commerce and Industry**

**Meeting on 16 December 2014**

**Background brief on  
the launching of a new Enterprise Support Scheme  
to replace the Small Entrepreneur Research Assistance Programme  
under the Innovation and Technology Fund**

**Purpose**

This paper provides background information on the proposed setting up of the Enterprise Support Scheme (ESS) to replace the Small Entrepreneur Research Assistance Programme (SERAP) to encourage more private sector investment in research and development (R&D). It also summarizes the views and concerns expressed by the Panel on Commerce and Industry (the Panel) on the subject.

**Background**

Existing SERAP

2. SERAP is the only programme under the Innovation and Technology Fund (ITF) that supports in-house R&D carried out solely by private companies (without any university/R&D Centre partners). The original purpose of setting up SERAP was to provide funding support to technology entrepreneurs and encouraging them to carry out R&D projects and start small businesses to commercialize their R&D results. SERAP has been reviewed from time to time, taking into account the experience gained from implementation and feedback received. Major enhancements over the years include increasing the size of eligible company and funding ceiling, expanding the scope of project activities eligible for funding support, streamlining the application system, etc. Key features of SERAP include –

- (a) the provision of Government funding on a dollar-for-dollar matching basis to technology-based small and medium enterprises to undertake R&D projects within two years;
- (b) the funded projects should have innovative technological content, and have a reasonable chance of successful development of a new product, process or service that can be brought to the market;
- (c) Government's contribution to each project is capped at \$6 million;
- (d) recipient companies will hold all intellectual property (IP) rights arising from the project; and
- (e) Government's contribution will be recouped in stages if the project is able to generate revenue or the recipient company is able to attract third-party investment.

3. Applicant companies should be incorporated in Hong Kong under the Companies Ordinance (Cap. 622), has less than 100 employees in Hong Kong, and is not a subsidiary of or significantly owned/controlled by a large company.

4. As at end-September 2014, SERAP has approved a total of 393 projects, involving a funding amount of \$470.4 million, representing around 5% of the total funding provided by the ITF.

5. While SERAP has been an important funding source to support in-house R&D activities in the private sector, the Administration has identified certain limitations of SERAP when compared to the Innovation and Technology Support Programme (ITSP) and the University-Industry Collaboration Programme (UICP) under the ITF that support R&D activities. The limitations are –

- (a) size of company – larger companies which have over 100 employees and publicly listed companies in general cannot benefit from the funding support to conduct in-house R&D;
- (b) funding ceiling – while funding support by the ITF on R&D projects conducted in collaboration with designated institutions may reach \$30 million per project, the funding ceiling of SERAP is only \$6 million per project; and
- (c) repayment requirement – while there is no repayment requirement for projects funded by the ITSP and UICP, SERAP recipients are required to repay the funding from the ITF when the project

generates revenue or receives third-party investment. There have been comments that this repayment requirement would in a way become a disincentive for SERAP recipients to pursue success.

### Proposed new ESS

6. The Administration announced in the 2014-2015 Budget Speech the setting up of a new and improved ESS to address the limitations of SERAP with the following arrangements –

- (a) size of company – companies registered in Hong Kong regardless of size will be eligible to apply. In implementing the ESS, the Administration will ensure that there are clear assessment criteria and sufficient checks and balance to ensure an open and objective selection process, including the necessary tests on technical merit, benefit to the community, proportionality and reasonableness. The vetting panels for ESS would comprise experienced prominent persons in various domains of the innovation and technology sector such as academia, industry, venture capital, etc to ensure a fair and balanced assessment of the applications;
- (b) amount – funding up to \$10 million for each approved project will be provided on a generally matching basis. Contribution from the applicant company should, unless in very exceptional circumstances, not be less than 50% of the total project cost. Both cash and in-kind contribution will be accepted;
- (c) assessment of applications – the applicant company would be assessed under a marking scheme to be devised, making reference to the current marking criteria of the ITSP and SERAP. Since creating employment opportunities and nurturing local talent are the Administration's top priority, it would put special emphasis on the applicant's employment plan for talents;
- (d) fund recoupment requirement – in contrast with SERAP, there will be no requirement for recoupment of the approved funds. This will provide greater encouragement to companies to invest in R&D; and
- (e) IP arrangement and benefit sharing angle – the applicant company will own the IP of the project (unless otherwise agreed among parties concerned). The Administration will also allow much greater flexibility for the "benefit-sharing" requirement.

7. Apart from providing financial support, the new ESS will provide a suitable interface for the recipient company to join the Incubation Programmes

currently operated by the Hong Kong Science and Technology Parks Corporation if it satisfies the prevailing admission criteria.

### **Discussion by the Panel**

8. The Panel was briefed on the proposed setting up of the ESS at the Panel meeting on 18 March 2014. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

9. Sharing the industry's concern about the limitations of the existing SERAP, members generally supported the proposed ESS and welcomed the enhanced measures to encourage more private sector investment in R&D to further promote innovation and technology development in Hong Kong. Members noted that all companies registered in Hong Kong, regardless of size, would be eligible to apply for the proposed ESS, and that there would be no requirement for fund recoupment of the approved grant.

10. While agreeing with the need to ensure proper use of public funds, some members were concerned that, in order to avoid criticisms of transfer of benefits to certain large companies, the Administration might impose over stringent requirements for assessing the applications and in monitoring the funded companies, which would discourage companies from applying.

11. The Administration advised that it was keenly aware that Hong Kong might lose out to neighbouring economies in attracting investment from multinational technology companies if it was too conservative in providing funding support or incentives to motivate private enterprises to invest in applied R&D. To ensure an open and objective selection process, the Administration would draw up clear criteria to assess the technical merits, benefits to the community, proportionality and reasonableness of applications, and put in place checks and balances. The vetting panels for the ESS would comprise prominent persons with expertise in relevant domains of the innovation and technology sector.

12. Members noted that SERAP would continue before the launching of the new ESS. In the interim, existing cases of SERAP would continue to be dealt with under their existing rules. Some members called on the Administration to consider allowing existing cases of SERAP to convert to the ESS in future. The Administration advised that on the handling of long outstanding SERAP projects which did not comply with the requirements of the funding agreement, it would review those cases by adopting a balanced approach to adequately protect the interests of the Administration on the one hand while acting appropriately and sympathetically to the companies concerned on the other. The Administration would assess if there were reasonable explanations or cases

of hardship and devise an appropriate way forward, e.g. demanding repayment, setting the timeframe for repayment, consulting the Department of Justice about the feasibility of instigating legal action and, in cases where recovery action was not warranted, seeking approval for write-off in accordance with prevailing Government procedures.

### **Latest position**

13. The Administration will brief the Panel on 16 December 2014 on the details and timeframe for launching the ESS to strengthen financial support for companies which conduct in-house R&D.

### **Relevant papers**

14. A list of relevant papers is shown in the **Appendix**.

Council Business Division 1  
Legislative Council Secretariat  
10 December 2014

**Launching of a new Enterprise Support Scheme  
to replace the Small Entrepreneur Research Assistance Programme  
under the Innovation and Technology Fund**

**List of relevant papers**

<b>Date of meeting</b>	<b>Meeting</b>	<b>Paper</b>
18/3/2014	Panel on Commerce and Industry	<p>Administration's paper on "New initiatives on promotion of innovation and technology" (LC Paper No. CB(1)1072/13-14(07)) <a href="http://www.legco.gov.hk/yr13-14/english/panels/ci/papers/ci0318cb1-1072-7-e.pdf">http://www.legco.gov.hk/yr13-14/english/panels/ci/papers/ci0318cb1-1072-7-e.pdf</a></p> <p>Updated background brief prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1072/13-14(08)) <a href="http://www.legco.gov.hk/yr13-14/english/panels/ci/papers/ci0318cb1-1072-8-e.pdf">http://www.legco.gov.hk/yr13-14/english/panels/ci/papers/ci0318cb1-1072-8-e.pdf</a></p> <p>Minutes of meeting (LC Paper No. CB(1)1418/13-14) <a href="http://www.legco.gov.hk/yr13-14/english/panels/ci/minutes/ci20140318.pdf">http://www.legco.gov.hk/yr13-14/english/panels/ci/minutes/ci20140318.pdf</a></p>
18/11/2014	Panel on Commerce and Industry	<p>Administration's paper on "Final Report on Comprehensive Review on the Innovation and Technology Fund" (LC Paper No. CB(1)211/14-15(03)) <a href="http://www.legco.gov.hk/yr14-15/english/panels/ci/papers/ci20141118cb1-211-3-e.pdf">http://www.legco.gov.hk/yr14-15/english/panels/ci/papers/ci20141118cb1-211-3-e.pdf</a></p> <p>Background brief prepared by the Legislative Council Secretariat (LC Paper No. CB(1)211/14-15(04)) <a href="http://www.legco.gov.hk/yr14-15/english/panels/ci/papers/ci20141118cb1-211-4-e.pdf">http://www.legco.gov.hk/yr14-15/english/panels/ci/papers/ci20141118cb1-211-4-e.pdf</a></p>