

E X T R A C T

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Legislative Council

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Panel on Commerce and Industry

**Minutes of meeting
held on Tuesday, 20 March 2012, at 2:30 pm
in Conference Room 3 of the Legislative Council Complex**

Members present : Hon WONG Ting-kwong, BBS, JP (Chairman)
Hon Vincent FANG Kang, SBS, JP (Deputy Chairman)
Hon Emily LAU Wai-hing, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon CHIM Pui-chung
Dr Hon LAM Tai-fai, BBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Dr Hon Samson TAM Wai-ho, JP
Hon Tanya CHAN
Hon Albert CHAN Wai-yip

Members absent : Hon Fred LI Wah-ming, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon Starry LEE Wai-king, JP

**Public officers
attending** : Agenda item IV
Mr Andrew WONG, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Mrs Alice CHEUNG
Deputy Secretary for Commerce and Economic Development (Commerce & Industry)3

Ms Carol YUEN, JP
Deputy Director-General of Trade and Industry (Commercial Relations, Controls and Support)

Agenda item V

Mr Gregory SO, JP
Secretary for Commerce and Economic Development

Mrs Alice CHEUNG
Deputy Secretary for Commerce and Economic Development (Commerce & Industry)3

Mr James LAU
Chief Executive Officer
The Hong Kong Mortgage Corporation Limited

Agenda Item VI

Mr Gregory SO, JP
Secretary for Commerce and Economic Development

Miss Elizabeth TSE, JP
Permanent Secretary for Commerce and Economic Development (Communications and Technology)

Miss Janet WONG, JP
Commissioner for Innovation and Technology

Mr Andrew LAI, JP
Deputy Commissioner for Innovation and Technology

Clerk in attendance : Ms YUE Tin-po
Chief Council Secretary (1)3

Staff in attendance : Miss Rita YUNG
Council Secretary (1)3

Ms May LEUNG
Legislative Assistant (1)3

Action

- IV. Dedicated fund on branding, upgrading and domestic sales**
(LC Paper No. CB(1)1298/11-12(03) -- Administration's paper on dedicated fund on branding, upgrading and domestic sales
LC Paper No. CB(1)1298/11-12(04) -- Paper on the support for Hong Kong enterprises in branding, upgrading and domestic sales prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

At the invitation of the Chairman, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) briefed members on the Administration's proposal to set up a time-limited dedicated fund of \$1 billion to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland (the BUD fund). Details of the proposal are set out in the Administration's paper (LC Paper No. CB(1)1298/11-12(03)). PSCIT advised that subject to members' views, the Administration would seek funding approval of the BUD fund from the Finance Committee (FC) in April 2012, and launch the fund by mid 2012.

Discussion

Funding scope and principles

2. Noting that individual Hong Kong enterprises might apply for funding under the BUD fund to engage a qualified service provider to help develop a holistic business plan to enhance their competitiveness and facilitate their business development in the Mainland, the Chairman enquired whether the enterprises were eligible to apply for further funding under the BUD fund to

implement the projects subsequently. He also expressed concern about the time frame of 24 months allowed for the completion of each project.

3. PSCIT responded that during the tenure of the BUD fund and subject to funding availability, each enterprise might obtain funding for a maximum of three approved projects (including the engagement of qualified service provider and the implementation of the projects), and the cumulative funding ceiling per enterprise under the BUD fund was \$500,000. For the purpose of monitoring the progress of the approved projects, each project should be completed within a maximum of 24 months to ensure effective implementation of the relevant BUD measures.

4. In response to the Chairman's further enquiry about the initial payment to assist enterprises in meeting the financing needs at the start-up of the project, PSCIT advised that the Administration's current intention was to provide 25% of the total approved funding of each project as the initial payment. Subsequent payment(s) would be effected on a reimbursement basis upon the acceptance of the required progress/final report(s) and audited account(s) by the Administration.

5. Ms Emily LAU noted that the design and operation of the funding for non-profit-distributing organizations of the BUD fund was largely based on the existing Small and Medium Enterprises (SMEs) Development Fund of the Trade and Industry Department (TID). She enquired whether the Administration had received any complaints about unfair treatment during the approval process of the SME funding schemes administered by TID. PSCIT replied in the negative.

Programme implementation

6. Noting that the Administration intended to engage the Hong Kong Productivity Council (HKPC) to implement the enterprise part of the BUD fund, Mr Albert CHAN expressed concern about the vetting mechanism of the applications received and the role of HKPC. PSCIT responded that in respect of funding for individual enterprises under the BUD fund, all applications would be considered by a newly formed Programme Management Committee (PMC) to be set up to oversee the implementation of the enterprise part of the BUD fund. The PMC would be chaired by a Government official. HKPC would act as the secretariat. Its work would include planning and organizing publicity and promotional activities, receiving and undertaking initial vetting of applications, co-ordinating the further vetting of project applications by the PMC and the Inter-departmental Committee supporting the PMC, monitoring the progress of the approved projects (including conducting on-site checking of selected projects),

disbursing funds for approved projects and providing general guidance on the application procedures, etc to enterprises.

7. The Chairman enquired about the proposed membership of the PMC. PSCIT advised that the PMC would be chaired by a government official, with about 10 members to be drawn from, inter alia, the trade, SME associations, and those with expertise or experience in branding, upgrading and restructuring and/or domestic sales in the Mainland.

Financial implications

8. The Chairman enquired about the details of the disbursement to HKPC for providing the secretariat services for the enterprise part of the BUD fund. PSCIT and Deputy Secretary for Commerce and Economic Development (Commerce & Industry)³ advised that the Administration would disburse HKPC the bulk of the expenses incurred in providing the secretariat services: around \$55 million would be provided to HKPC to set up a dedicated team for programme management, administrative support and project monitoring, and around \$4 million would be provided to HKPC to conduct various publicity and promotional activities, organize seminars and symposia, publish guidebooks for education and experience sharing, and meet other necessary expenses such as audit fees. HKPC would contribute around \$17 million as the implementation partner in terms of professional manpower support, venue rentals and other ancillary, technical and support services.

Expected benefits

9. Mr Albert CHAN expressed concern on whether the BUD fund would become a form of "transfer of benefits" to a small group of enterprises. He enquired about the substantive economic benefits expected to be brought about by the BUD fund to the overall economy of Hong Kong, especially the industrial sector and local workforce. He opined that the BUD fund should only be open for applications by enterprises with manufacturing operations in Hong Kong, thus creating more job opportunities for local people. Sharing a similar view, Ms Emily LAU opined that the Administration should explain clearly how the BUD fund would bring about economic benefits to Hong Kong, such as number of jobs to be created.

10. In response, PSCIT advised that the Administration had all along been maintaining a close dialogue with the trade through various channels, so as to understand their concerns and views relating to brand development, upgrading and restructuring, and promoting domestic sales. The BUD fund was intended to provide assistance and incentive to Hong Kong enterprises to

explore and develop the Mainland market. All non-listed enterprises registered in and with substantive business operations in Hong Kong, including manufacturing, non-manufacturing and service industries, were eligible to apply for the BUD fund. PSCIT added that although the production base of many manufacturing enterprises had been relocated to the Mainland, many other parts of the supply chain (e.g. product design, promotion and marketing) still took place in Hong Kong, generating needs for various professional services where Hong Kong enjoyed advantages. Furthermore, the applicant enterprises might also engage local qualified service providers to help them develop the relevant business plan. Therefore the BUD fund would bring about economic benefits to various sectors of Hong Kong.

11. Mr Vincent FANG considered that the BUD fund would assist local SMEs, such as some small-sized design companies or proprietary Chinese medicine manufacturers, to develop their brands and tap the Mainland domestic market, leading to an expansion of their businesses in Hong Kong which in turn would be conducive to the creation of more employment opportunities for local people. To safeguard the interests of SMEs in Hong Kong, Mr FANG considered that the BUD fund should be open for applications by SMEs only, but not those large non-listed enterprises.

12. Mr Jeffrey LAM welcomed the Administration's proposal to set up the BUD fund. Noting that SMEs might suffer hardship in their operations in times of the fluctuating external economic environment, Mr LAM considered that the successful implementation of the BUD fund would assist Hong Kong enterprises in enhancing competitiveness and exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland, so as to capture the business opportunities arising from the National 12th Five-Year Plan. Echoing Mr Jeffrey LAM's view, Mr Vincent FANG urged the Administration to launch the BUD fund as soon as practicable to provide timely assistance to Hong Kong SMEs.

Admin 13. At the request of Mr Albert CHAN and Ms Emily LAU, the Administration undertook to provide supplementary information on the effectiveness and possible economic benefits as well as job opportunities to be brought about by the BUD fund to the overall economy of Hong Kong.

Admin 14. Members agreed that the Panel should further discuss the Administration's funding proposal at the next regular Panel meeting to be held on 17 April 2012 before it was submitted to FC for consideration.

Council Business Division 1
Legislative Council Secretariat
13 April 2012