

**For discussion  
on 13 February 2012**

**Legislative Council Panel on  
Information Technology and Broadcasting**

**Provision of Funding for Extension of the  
Design Incubation Programme**

**PURPOSE**

We propose to extend the Design Incubation Programme (DIP) to offer two-year incubation services for 60 design start-ups. We need to seek funding for the Hong Kong Design Centre (HKDC) to administer this second phase DIP.

**PROPOSAL**

2. We propose to invite the Finance Committee of the Legislative Council to approve the allocation of a non-recurrent funding of \$26.25 million to enable HKDC<sup>1</sup> to operate the second phase of DIP as from 1 May 2012. We will meet the balance required, estimated at \$15.85 million, from residual funding under the DesignSmart Initiative (DSI).

**CONSIDERATIONS**

3. The design sector is one of the fastest-growing sectors<sup>2</sup> of cultural and creative industries. It is Government's strategy to nurture

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<sup>1</sup> HKDC is a non-profit making organisation established in 2001 to promote design in Hong Kong. It has been working closely with the Government and other strategic partners to promote the development of the local design industry, and to nurture design talent. Towards the wider public, HKDC seeks to inculcate a greater appreciation of the ways design contributes to a better quality of life. This Panel endorsed the Administration's proposal vide LC Paper No. CB(1)274/11-12(05) to allocate a time-limited funding capped at \$107.5 million to support HKDC's basic operation from 1 July 2012 to 30 June 2015 and to enable it to organise two anchor events, namely Business of Design Week (BODW) and the HKDC Awards for three years starting 2012.

<sup>2</sup> According to the latest statistics from the Census and Statistics Department, the value added of the design sector has more than doubled from around \$1 billion in 2005 to about \$2.9 billion in 2010.

design start-ups and talent to propel further development of the design sector.

4. The Finance Committee of the Legislative Council approved in June 2004 vide FCR(2004-05)16 the setting up of the DSI to provide for, among others, funding support to the DIP, which was initially targeted at assisting about 50 design start-ups. \$33.5 million has been earmarked for the DIP under the DSI<sup>3</sup>. Launched in 2006, the DIP aims at nurturing design start-ups<sup>4</sup> to help build up a design talent pool and design entrepreneurship in Hong Kong. It offers funding support and other support services to incubatees, with a view to helping them meet the challenges during the early and critical stages of development. Under the existing arrangement, each successful applicant can receive funding support on a reimbursement basis, capped at \$500,000 over the two-year incubation period, to cover expenses incurred for office rental<sup>5</sup>, general operation, promotion and development, management and training courses, technical and management assistance. The incubatees also enjoy free use of business centre services and facilities at InnoCentre<sup>6</sup> and have opportunities for networking with other industrial organisations, academic institutes, professional bodies and potential business partners.

5. The Hong Kong Science and Technology Parks Corporation (HKSTPC) is currently responsible for administering the DIP while HKDC offers advice on the admission criteria of the DIP as well as admission of incubatees into the DIP<sup>7</sup>. To fulfill its public mission of promoting design through InnoCentre and fostering innovation in Hong Kong, HKSTPC has been providing rental subsidies to the DIP as well as absorbing the administrative and operating costs of running the DIP since inception of the DIP.

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<sup>3</sup> In June 2004, the Finance Committee of the Legislative Council approved vide FCR(2004-05)16 a commitment of \$250 million for the setting up of the DSI under which \$25 million was set aside for supporting the DIP. The original target was for the DIP to support 50 incubatees for five years. The funding has subsequently been adjusted to \$33.5 million having regard to the requirements of the industry.

<sup>4</sup> Successful applicants under the DIP have to engage in design-oriented activities including but not limited to product design, fashion design, jewelry design, interior design, branding/packaging, and visual and media arts.

<sup>5</sup> Incubatees enjoy rent-free office premises of up to 800 square feet during the first year of the incubation period and a 50% discount in the second year.

<sup>6</sup> InnoCentre is a an office building located in Kowloon Tong and vested with the Hong Kong Science and Technology Parks Corporation to house and sustain a cluster of design professionals and companies.

<sup>7</sup> HKSTPC appoints a Design Advisory Panel consisting of designers, industrialists and academia from various design disciplines to advise on the proposals and business plans submitted by applicants; as well as a Design Admission Panel to decide on the admission to the DIP.

## **Latest Position**

6. Since the first intake in January 2006, the DIP has admitted 102 incubatees from a total of 266 applications (as at end January 2012), exceeding the original target of 50 incubatees. Of the 102 admitted incubatees, 41 are still undergoing incubation, 53 have graduated and eight have withdrawn from the programme. The latest survival rate<sup>8</sup> as at August 2011 is 86%. Since inception of the DIP, the incubatees have created 334 job opportunities (i.e. 271 full-time staff and 63 part-time staff), filed 59 intellectual property rights (including three patents, 39 trademarks and 17 registered designs), and obtained 17 international and 34 local awards. The major achievements of the incubatees are summarised at the **Annex**.

## **2<sup>nd</sup> Phase DIP**

7. The DIP enhances the competitiveness of the ventures and expands their business networks at the early stage of business development through management training, consulting services, mentorship and networking opportunities. The DIP creates design-related job opportunities and student internship, thereby dovetailing with the Government's efforts to nurture design talent.

8. Based on the actual drawdown, we expect the \$33.5 million DIP funding to be able to support up to 104 incubatees will be fully committed by end April 2012. The existing DIP will soon cease admitting new applicants. Having regard to the positive response to the DIP, we see a need to extend the programme to continue to support more design start-ups. Under the 2<sup>nd</sup> phase DIP, our target is to recruit 60 additional design start-ups within three years. Similar to the existing arrangement, each design start-up admitted to the 2<sup>nd</sup> phase DIP will undergo a two-year incubation period and receive funding support subject to a cap of \$500,000 on a reimbursement basis.

9. We plan to task HKDC to administer the 2<sup>nd</sup> phase DIP. HKDC has been the Government's main partner in promoting design in Hong

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<sup>8</sup> Survival rate is calculated based on the number of graduated incubatees which are still in business two years after graduation from the DIP.

Kong. It has built up close ties with the design communities inside and outside Hong Kong. Over the years, HKDC has organised designer-oriented programmes such as master classes, conferences, forums, workshops, seminars to hone designers' design and business skills, facilitate exchange and enable designers to explore new business opportunities. Support to the incubatees can be enhanced through synergy between the DIP and HKDC's existing programmes. In addition, HKDC has all along been working closely with HKSTPC on the DIP. We believe that with its dedicated focus on design and strong network with relevant stakeholders, HKDC is in a good position to leverage on its established position in the design sector to take on the operation of the 2<sup>nd</sup> phase DIP. HKSTPC will continue to provide rental subsidies to the 2<sup>nd</sup> phase DIP. To avoid duplication of efforts, HKDC will provide incubation services to the existing incubatees under the 1<sup>st</sup> phase DIP, which have been admitted by HKSTPC but have yet to graduate. We will allocate residual DIP funding earmarked under the DSI to HKDC to cover expenses related to the 1<sup>st</sup> phase DIP.

10. With the new funding support, the 2<sup>nd</sup> phase DIP will commence with effect from 1 May 2012. HKDC will fine-tune the support service package for the new incubatees with a view to enhancing the support services to best suit the needs of incubatees, in light of the experience of the 1<sup>st</sup> phase DIP.

## **FINANCIAL IMPLICATIONS**

11. Taking into account the financial assistance package for new incubatees and the related operating expenses, HKDC estimates that around \$42.1 million would be required for the 2<sup>nd</sup> phase DIP. Of this, \$15.85 million will come from the residual funding earmarked under the DSI. The indicative schedule of disbursement of the \$42.1 million funding for the 2<sup>nd</sup> phase DIP is as follows –

	<b>May 12 - April 13</b>	<b>May 13 - April 14</b>	<b>May 14 - April 15</b>	<b>May 15 - April 16*</b>	<b>May 16 – April 17*</b>	<b>Total</b>
Disbursed funding (\$ million)	\$4.1	\$12.0	\$13.5	\$9.3	\$3.2	\$42.1
Indicative number of existing incubatees under 1 <sup>st</sup> phase DIP	40	15	-	-	-	N/A
Indicative number of new intake under 2 <sup>nd</sup> phase DIP	24	22	14	-	-	60

\* The expenditure for the period from May 2015 to April 2017 covers the undisbursed funding earmarked for those incubatees which have yet to graduate by end April 2015 and the related expenses of providing incubation services beyond April 2015.

## **FUNDING ARRANGEMENTS**

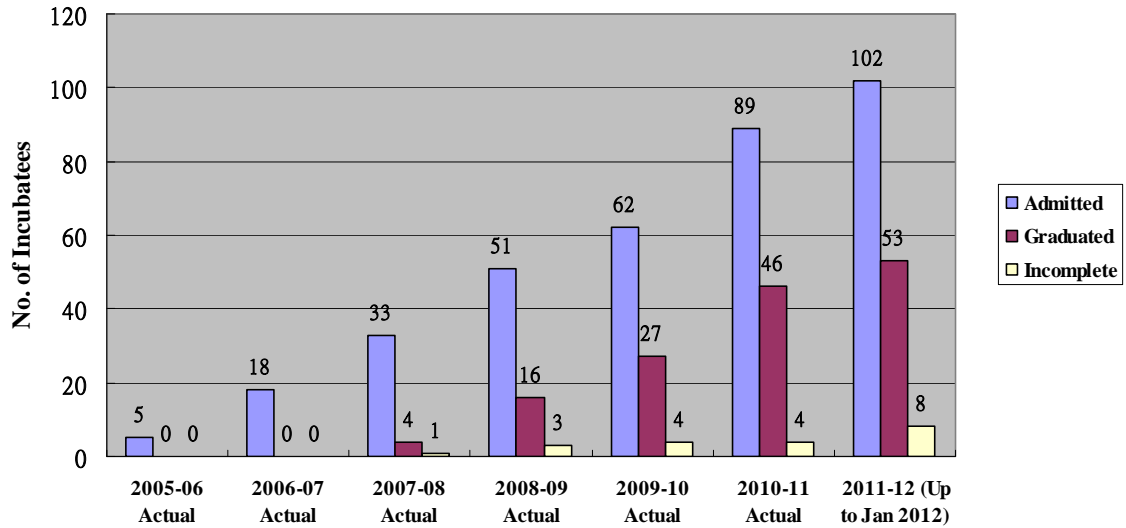
12. The Government will enter into a funding agreement with HKDC relating to the running of the 2<sup>nd</sup> phase DIP. The funding agreement will set out checks and controls for HKDC. HKDC will be required to draw up an annual programme providing details on the admission of incubatees and support services for the design start-ups, as well as a budget setting out the estimated amount of financial support required, for the approval by the Government. HKDC will also need to submit mid-year progress report on the operation of the incubation programme, and annual audited accounts in respect of the funding received. Disbursement of funding will be made on a half-yearly basis, contingent upon acceptance of the annual programme and budget as well as progress reports. HKDC will be subject to value-for-money audits by the Audit Commission.

## **WAY FORWARD**

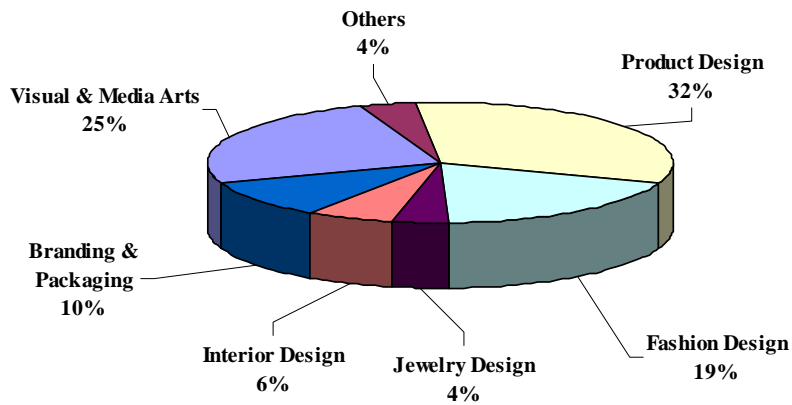
13. Subject to Members' views, we will seek the Finance Committee's approval for the proposed allocation of non-recurrent funding of \$26.25 million to HKDC for running the 2<sup>nd</sup> phase DIP.

Communications and Technology Branch  
Commerce and Economic Development Bureau  
February 2012

**Cumulative Number of Incubatees Admitted, Graduated and Incomplete for the Period from 2005-06 to 2011-12**

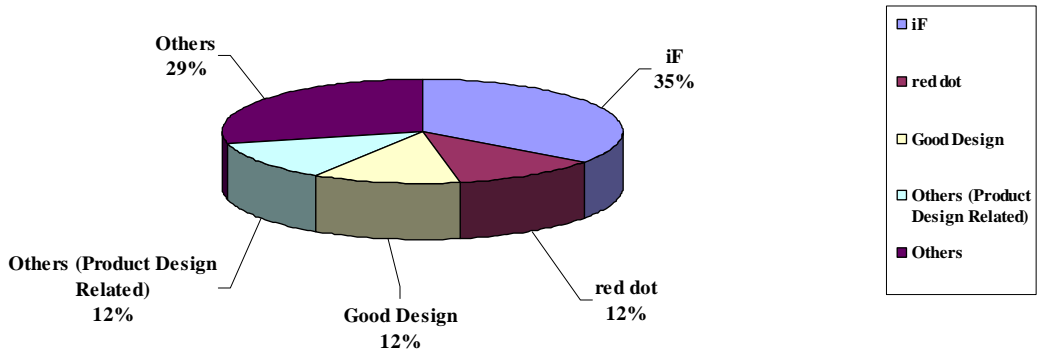


**Design Focus of All Incubatees admitted to the Programme**



As of December 2011, 51 local and International awards/public recognitions were obtained

International Awards of Incubatees (Cumulative figures up to 31 Dec 2011: 17)



Local Awards of Incubatees (Cumulative figures up to 31 Dec 2011: 34)

