

ITEM FOR FINANCE COMMITTEE

HEAD 181 – TRADE AND INDUSTRY DEPARTMENT

Subhead 700 General non-recurrent

New item “Dedicated Fund on Branding, Upgrading and Domestic Sales”

Members are invited to approve a new commitment of \$1 billion under Head 181 Trade and Industry Department for the setting up of a dedicated fund to provide funding support to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

PROBLEM

To capitalise on the opportunities arising from the National 12th Five-Year Plan for contributing to the long-term development of the Hong Kong economy, Hong Kong enterprises need to enhance their competitiveness and sustain their development in the Mainland market through developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland.

PROPOSAL

2. The Director-General of Trade and Industry, supported by the Secretary for Commerce and Economic Development, proposes the creation of a new non-recurrent commitment of \$1 billion for setting up a dedicated fund to provide funding support to assist Hong Kong enterprises in enhancing their competitiveness and facilitating their business development in the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland (the BUD fund).

/JUSTIFICATION

JUSTIFICATION

3. Overseas markets are plagued by uncertainty due to the economic downturn in Europe and the relatively weak economy in the United States. On the other hand, the rapid economic development of the Mainland, coupled with the National 12th Five-Year Plan which emphasises expanding domestic demand and upgrading and restructuring of industries, has opened up an enormous market. Many emerging economies are fiercely competing to tap into the Mainland market. To sustain their business development and to contribute to the long-term development of the Hong Kong economy, Hong Kong enterprises must seize the opportunity to enhance their competitiveness in the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

4. At present, there are about 300 000 small and medium enterprises (SMEs)¹ in Hong Kong employing around 1.2 million persons, representing about half of the total number of employees in the private sector. Through our contacts with various trade associations, we understand that many SMEs would like to explore the Mainland domestic market. They see the need to upgrade and restructure their operations or develop brands to enhance their competitiveness in the Mainland market. They need assistance to support their tapping into the Mainland market, particularly in brand development.

5. Given the scope of the existing Government funding schemes, namely the SME Export Marketing Fund (EMF)² and SME Development Fund (SDF)³ administered by the Trade and Industry Department (TID), these schemes cannot meet the specific funding needs of SMEs in exploring and developing the Mainland market. The EMF provides grants to individual SMEs to participate in export promotion activities on a reimbursement basis, whilst the SDF cannot meet the needs of conducting larger-scale projects of longer duration, especially as brand building and developing the Mainland domestic market require long-term and sustained efforts.

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¹ Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

² The SME Export Marketing Fund (EMF) aims at helping SMEs expand their businesses through participation in export promotion activities. The maximum amount of grant for each application will be 50% of the total approved expenditures incurred by the applicant or \$50,000, whichever is the less. The maximum cumulative amount of grants that an SME may obtain from the EMF is \$150,000.

³ The SME Development Fund (SDF) provides financial support to non-profit-distributing organisations to implement projects which aim at enhancing the overall competitiveness of SMEs in general or in specific sectors. The maximum amount of funding support to each approved project is \$2 million, or 90% of the approved project expenditure, whichever is the less.

6. The BUD fund will be able to provide timely support to Hong Kong enterprises.

The Funding Scope and Principles of the BUD Fund

7. We propose that subject to the funding balance, the BUD fund will be open for applications for five years, which may be reviewed and extended, if necessary. It is proposed that the BUD fund should comprise the following two parts.

(a) Funding for individual enterprises

8. This part of the BUD fund provides funding support to individual Hong Kong enterprises to carry out specific BUD measures. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) with substantive business operations⁴ in Hong Kong are eligible to apply, irrespective of whether they belong to the manufacturing or service sector and whether they already have any business operations in the Mainland. Applicant enterprises have to show, in a holistic business plan, how the proposed measures can enhance their competitiveness and facilitate their business development in the Mainland. Some examples that fall within the scope of the BUD fund are set out at Enclosure 1.

Encl. 1

9. If an enterprise requires external expertise to help develop the plan, it may also apply for funding under the BUD fund to engage a qualified service provider⁵ for this purpose.

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⁴ For example, a shell company will not be regarded as having substantive business operations in Hong Kong.

⁵ The current plan is that a qualified service provider should comply with the following requirements at the time of project application:

- (i) having registered in Hong Kong under the Business Registration Ordinance (Chapter 310) for at least one year;
- (ii) having at least one principal possessing five years or more practical experience of providing consultancy services related to branding, upgrading and restructuring and/or domestic sales for enterprises in Hong Kong or the Mainland. The principal must be actively engaged in the consultancy study throughout the whole study period; and
- (iii) having completed at least five projects in branding, upgrading and restructuring and/or domestic sales.

The above requirements would be subject to review and revision from time to time.

10. Funding would be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the enterprise has to contribute no less than 50% of the total approved project cost in cash. During the tenure of the BUD fund, each enterprise may obtain funding for a maximum of three approved projects. Each project should be completed within 24 months. The cumulative funding ceiling per enterprise under the BUD fund is \$500,000.

11. To assist enterprises in meeting the financing needs at the start-up of the project, an initial payment may be payable. Subsequent payment(s) will be effected on a reimbursement basis upon the acceptance of the required progress/final report(s) and audited accounts by the Government.

(b) Funding for non-profit-distributing organisations

12. This part of the BUD fund provides funding support to non-profit-distributing organisations (e.g. trade and industrial organisations, professional bodies or research institutes) to undertake projects which can assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market. All non-profit-distributing organisations in Hong Kong⁶ are eligible to apply.

13. The design and operation of this part of the fund is largely based on the existing SDF administered by TID. In view that brand building and developing the Mainland domestic market will require relatively long-term and sustainable efforts, we propose that this part of the BUD fund should meet the needs of conducting larger-scale projects of longer duration. The maximum duration of a project will be three years. The maximum amount of funding support for each approved project is \$5 million, or 90% of the approved project expenditure, whichever is the less. The applicant has to contribute the remaining 10% of the project expenditure, which may be in cash, in kind or in the form of sponsorship. An initial payment would be made to facilitate the start-up of the project. Subsequent payment(s) will be effected upon the acceptance of progress report(s) and audited accounts. The applicant will be required to share the results and deliverables of the project widely with the industry.

/Programme

⁶ The applicant should either be a statutory organisation or an organisation registered under the laws of the Hong Kong Special Administrative Region.

Programme Implementation

(a) Funding for individual enterprises

14. All applications will be considered by a Programme Management Committee (PMC) to be set up to oversee the implementation of this part of the BUD fund. The PMC will be chaired by a senior government official. Membership of the committee will be drawn from, *inter alia*, the trade, SME associations, and those with expertise or experience in BUD. An Inter-departmental Committee (IDC), comprising members from relevant government departments, such as TID, Innovation and Technology Commission, Environmental Protection Department, Create Hong Kong and Information Services Department, will be set up to support the PMC. The IDC will vet all project applications before submitting its recommendations to the PMC for consideration and approval.

Hong Kong Productivity Council as the Implementation Partner

15. Developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland market are specialised subjects requiring professional knowledge. Unlike existing funding schemes administered by TID, applications to be received under this part of the BUD fund involve, *inter alia*, business plans and initiatives put forward by individual enterprises in specific industries and markets. Extensive professional input from someone which is close to the business sector, understands their needs and has the experience and expertise in assisting the Hong Kong enterprises in developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland is essential. In order to effectively handle project applications from enterprises and monitor the implementation progress of approved projects, we intend to engage the Hong Kong Productivity Council (HKPC) as a partner to implement the enterprise part of the BUD fund in the light of its mission, and more importantly its expertise and experience in the Mainland market.

16. The HKPC is a multi-disciplinary organisation dedicated to promoting productivity excellence of the industry through the provision of integrated support across the value chain of the industry. Its work includes assisting local manufacturers in industrial upgrading, business transformation or relocating their operations; assisting the Hong Kong enterprises and industries in leveraging

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on the business opportunities arising from the Mainland and Hong Kong Closer Economic Partnership Arrangement; and enhancing its support to the Hong Kong enterprises operating in the Pearl River Delta through its subsidiary consulting firms set up in Guangzhou, Shenzhen and Dongguan. Examples of relevant initiatives in recent years include – (i) partnering with an SME association, the HKPC conducted case studies on Hong Kong enterprises, provided expert advice to them on how to develop the domestic market in the Mainland and published a guidebook entitled “The Practical Guidebook for Smart Domestic Sales in China” for the trade’s reference; (ii) through providing professional evaluation and improvement proposals in programmes such as “Transformation, Upgrade and Relocation to Unveil a New Horizon” (TURN) and DG-TURN (a project collaborated with Dongguan Bureau of Foreign Trade and Economic Cooperation), the HKPC has facilitated the business enhancement and transformation of Hong Kong manufacturers in the region; and (iii) starting from 2008, the HKPC has been engaged as the secretariat for “Cleaner Production Partnership Programme” introduced by the Environmental Protection Department, responsible for receiving and vetting applications, monitoring the project progress, etc. We consider that the HKPC is the most suitable implementation partner for delivering the initiative.

17. The HKPC will act as the secretariat to the PMC. Its work will include planning and organising publicity and promotional activities, receiving and undertaking initial vetting of applications, coordinating the further vetting of project applications by the IDC and PMC, monitoring the progress of the approved projects, disbursing funds for approved projects, and providing general advice on the application procedures, etc to enterprises. The Government will disburse a total of \$60 million to the HKPC to cover the bulk of the expenses incurred for implementing the enterprise part of the BUD fund. The amount includes a total of \$56 million for staff and other operating costs of a dedicated team to be set up for programme management, administrative support and project monitoring and a total of \$4 million for various publicity and promotional activities and other necessary expenses such as audit fees. The HKPC would be responsible for the rest of the relevant expenditures which amount to about \$17 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services.

(b) Funding for non-profit-distributing organisations

18. Same as the existing SDF, applications will be considered by a vetting committee to be chaired by a senior government official, with members drawn from different disciplines of the trade and industry. The vetting committee will meet regularly to consider the applications received. TID will provide secretariat services to implement this part of the BUD fund.

/CONTROL

CONTROL AND REVIEW MECHANISM**(a) Funding for individual enterprises**

19. As mentioned in paragraph 14 above, a new PMC, supported by an IDC, will be set up to oversee the implementation of the enterprise part of the BUD fund. It will endorse a set of application guidelines as well as assessment and funding criteria, consider and approve project applications, monitor the implementation and evaluate the outcome of approved projects, regularly review and monitor the overall progress of the programme and evaluate the effectiveness of the programme and if required, endorse measures to improve the operation of the programme.

20. To ensure the proper use of public money, guiding principles for assessment of project applications will be set. Subject to further deliberation by the proposed PMC, our intention is that project applications received from the enterprises would be assessed, *inter alia*, according to the following guiding principles –

- (i) the project should lead to immediate or long-term business development in the Mainland in the specific BUD area(s);
- (ii) the project should have good prospects of improving the competitive advantage of the applicant or its product/service in the Mainland;
- (iii) the project should have concrete deliverables to facilitate progress monitoring and evaluation of project outcome;
- (iv) the project should include solid actions for developing the Mainland market; and
- (v) the project should have a reasonable budget with itemised cost breakdown and detailed justifications of costs and expenses.

21. Regarding approved projects undertaken by individual enterprises, suitable measures will be put in place to guard against duplication in the source of funding and possible abuse (e.g. enterprises will not be eligible for funding under the BUD fund in respect of projects that they have already obtained other source(s) of government funding support; funding provided must not be used to subsidise the normal operating expenses of the enterprise; and certain expenditures, like external audit fees, may be subject to caps). Project completion reports and audited accounts will be required upon project completion. Depending on the duration of the projects, interim progress reports and annual audited accounts may be required.

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To enhance monitoring of the approved projects, the HKPC will conduct on-site checking of selected projects, apart from reviewing progress and final reports submitted by the enterprises. To facilitate the assessment of the benefits brought about by the approved projects to the Hong Kong economy, the funded enterprises would be required to provide relevant information such as the number of additional staff employed in Hong Kong for implementing the project and to be employed in Hong Kong as a result of better business development in the Mainland, and the business sectors in Hong Kong engaged in the implementation of the project, etc, in their reports submitted to the PMC upon project completion.

22. To ensure the prudent use of public money, credible mechanisms on monitoring and control, as well as project assessment and overall evaluation of the effectiveness of the programme will be put in place. The Government will enter into an agreement with the HKPC setting out the rights and obligations of the two parties, including monitoring and control mechanisms to be implemented to safeguard the use of public funds. In particular, the HKPC will be invited to draw up annual implementation plans and financial estimates, and the Government will disburse funding to the HKPC upon the approval of the annual implementation plan and financial estimate by the PMC. The HKPC will also be required to submit regular progress reports to the PMC. In the progress reports, the HKPC will have to provide information such as implementation progress, problems encountered, remedial measures taken to tackle problems, and interim findings and evaluation of the programme, etc. The HKPC will also be required to submit annual and final audited accounts for the operation of the enterprise part of the BUD fund audited by an independent auditor.

(b) Funding for non-profit-distributing organisations

23. As mentioned in paragraph 18 above, applications will be considered by a vetting committee. As the implementation agent, TID would put in place suitable measures to guard against duplication of funding support to the same proposal and possible abuse of this part of the BUD fund, e.g. organisations will not be eligible for funding in respect of projects which have already obtained other source(s) of government funding support. To monitor the progress and effectiveness of the approved projects, TID and the vetting committee will consider relevant information in the progress and final reports submitted by the non-profit-distributing organisations to evaluate the results of individual projects with a view to assessing the overall effectiveness of this part of the BUD fund. Same as individual enterprises receiving funding support under the BUD fund, non-profit-distributing organisations receiving funding support would also need to provide information such as the number of enterprises and the sectors in Hong Kong benefitted from the project, and the number of additional staff employed in Hong Kong for implementing the project, etc. Such information will facilitate the assessment of the benefits brought about by the approved projects to the Hong Kong economy.

/EXPECTED

EXPECTED BENEFITS**(a) Funding for individual enterprises**

24. Since all non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) are eligible to apply for the enterprise part of the BUD fund, provided that they have substantive business operations in Hong Kong, and given that SMEs constitute around 98% of all enterprises in Hong Kong and account for about 50% of the total employment in the private sector⁷, we expect that the main beneficiaries of the enterprise part of the BUD fund will be SMEs. Successful implementation of this part of the BUD fund will benefit the Hong Kong economy on several fronts –

- (i) The eligibility of enterprises is regardless of whether they are engaged in manufacturing or service industries or whether they have set up business operations in the Mainland. If Hong Kong enterprises receiving funding support under the BUD fund can better develop their businesses in the Mainland, it would benefit their business operations in Hong Kong, and thus help preserve employment and create new job opportunities in Hong Kong. In fact, many Hong Kong enterprises that have set up operations in the Mainland still maintain their headquarters and major operations (e.g. supply chain management, product innovation, quality control, wholesale and distribution, as well as sales and marketing) in Hong Kong, so as to fully capitalise on Hong Kong's strengths;
- (ii) Enhanced business development would further generate needs for professional services or other services (such as financial services, advertising and logistics, etc.) in Hong Kong, thereby benefitting different sectors of the Hong Kong economy; and
- (iii) As mentioned in paragraph 9 above, Hong Kong enterprises may make use of the BUD fund to engage qualified local consultants to help develop a holistic business plan. Enterprises that have successfully obtained funding support under the BUD fund will also likely need to engage the services of other relevant sectors in Hong Kong (e.g. marketing, advertising, management consultancy, testing and certification, etc) to implement the approved projects.

In gist, apart from the funded Hong Kong enterprises, other related business sectors in Hong Kong will also be able to participate directly and benefit from the BUD fund. Further elaboration on the expected benefits brought about by BUD fund projects is set out in Enclosure 2.

Encl. 2

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⁷ There are about 300 000 SMEs in Hong Kong employing around 1.2 million persons, representing about half of the total number of employees in the private sector.

(b) Funding for non-profit-distributing organisations

25. Since the approved projects should benefit the entire sector concerned and the applicants will be required to share the results and deliverables of the projects widely within and across the industries, we anticipate that a large number of Hong Kong enterprises in various sectors will benefit from this part of the BUD fund.

26. As the number of enterprises to be benefitted and job opportunities to be created under the BUD fund would depend on various factors including the number of applications approved, the amount of funding approved, the nature and scale of the approved projects and the sector(s) involved, it is not possible to provide an accurate estimate at this stage. Assuming each enterprise will receive the maximum amount of funding support of \$500,000 and half of the \$1 billion commitment will be provided to enterprises, about 1 000 enterprises can directly benefit from the BUD fund. Taking into account the estimated funding requirement for projects undertaken by individual enterprises and assuming that each project undertaken by non-profit-distributing organisations will receive the maximum amount of funding support of \$5 million, it is estimated that around 90 projects undertaken by non-profit-distributing organisations can be funded.

27. As mentioned in paragraphs 21 and 23 above, we will require successful applicants to provide information such as the number of additional staff employed in Hong Kong for implementing the project, the number of enterprises and the sectors in Hong Kong benefitted, etc, in the project completion reports to facilitate the assessment and evaluation of the benefits brought about by the approved projects to the Hong Kong economy.

FINANCIAL IMPLICATIONS

28. The Government's total commitment for the BUD fund is \$1 billion. As the implementation partner for the enterprise part of the BUD fund, the HKPC will contribute about \$17 million as set out in paragraph 17 above. To maximise the flexibility of the use of the BUD fund, we propose not to set separate funding ceilings for the two parts of the BUD fund. For the purpose of budgetary planning, we assume that half of the commitment of the BUD fund, i.e. \$500 million, will be provided to enterprises under the enterprise part of the fund. Taking further into account that \$60 million will be disbursed to the HKPC for implementation of the initiative, around \$440 million will be available for the organisation part of the BUD fund. Detailed breakdown is set out in Enclosure 3.

29. The indicative cash flow requirements for the non-recurrent commitment of the BUD fund are provided as follows –

	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	Total \$'000
(a) Funding for individual enterprises							
(i) Funding support for approved projects	75,000	125,000	125,000	100,000	67,500	7,500	500,000
(ii) Implementation cost provided to the HKPC	9,000	15,000	15,000	12,000	8,100	900	60,000
(b) Funding for non-profit-distributing organisations							
(i) Funding support for approved projects	45,000	90,000	90,000	90,000	90,000	35,000	440,000
Total	129,000	230,000	230,000	202,000	165,600	43,400	1,000,000

Note: The actual annual funding allocation to enterprises and non-profit-distributing organisations would depend on the number of applications approved, as well as the amount of funding approved for each application. Since funds would be disbursed to approved projects in a phased approach, the actual disbursement of funds, including disbursement to the HKPC, may likely continue up to 2019-20 for overseeing and meeting the requirements of projects approved in the latter phase of the five-year application period.

30. The Commerce and Economic Development Bureau and TID will handle work relating to the BUD fund with existing resources.

IMPLEMENTATION TIMETABLE

31. Subject to Members' approval of the proposed BUD fund and completion of necessary preparatory work for the introduction of the fund, we plan to launch the BUD fund in the first half of 2012.

PUBLIC CONSULTATION

32. We have consulted various trade and industrial organisations, SME associations and related parties in drawing up the operational details of the BUD fund. Taking into account the trade's views, we have finalised the operational details of the BUD fund and consulted the Small and Medium Enterprises Committee (SMEC), the Trade and Industry Advisory Board (TIAB) and the Textiles Advisory Board (TEXTAB) in February 2012. Members of SMEC, TIAB and TEXTAB welcomed the proposal.

33. We consulted the Legislative Council Panel on Commerce and Industry on 20 March 2012. As requested by Members, the Administration provided supplementary information on the effectiveness, expected economic benefits and possible job opportunities to be brought about by the proposed BUD fund for further discussion at the Panel meeting on 17 April 2012. Members are supportive of the proposal. At the Panel meeting, Members requested the Administration to put in place measures to facilitate the assessment and evaluation of the expected benefits to be brought about by the proposed BUD funds to the Hong Kong economy. The proposed relevant measures are now set out in paragraphs 21 and 23 above.

BACKGROUND

34. The National 12th Five-Year Plan emphasises expanding domestic demand as well as upgrading and restructuring of industries. During his visit to Hong Kong last August, Vice-Premier LI Ke-qiang reiterated that the Central Government supported the stable development and upgrading and restructuring of Hong Kong enterprises engaged in processing trade⁸ in the Mainland. To help the Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-12 Policy Address the proposal to set up a dedicated fund of \$1 billion to assist them in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

Commerce and Economic Development Bureau
Trade and Industry Department
May 2012

⁸ Processing trade generally refers to those manufacturing operations in the Mainland which are involved in processes of importing raw materials, parts and components, accessories etc. from outside the Mainland and re-exporting the finished products after processing or assembly in the Mainland.

**Some Examples Falling within the Scope of the Dedicated Fund on
Branding, Upgrading and Domestic Sales**

1. Branding

- Brand Strategy and Positioning – corporate brand visioning, product and service planning
- Brand Building, Design and Communication – brand identity development, rebranding
- Brand Management – brand protection
- Brand Tracking – brand equity research and brand sustainability study

2. Upgrading & Restructuring

- Business Model Upgrading & Restructuring - from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and/or Own Branding & Manufacturing (OBM)
- Product Innovation and Repositioning – product strategy, new product development and design
- Materials Management – supply chain planning and execution
- Technology Upgrading – manufacturing technology upgrading, manufacturing automation
- Management Upgrading – management system, process re-engineering, quality improvement
- Logistics Management – warehouse management, distribution management

3. Promoting Domestic Sales

- Domestic Sales Strategic Planning - visioning process and strategy formulation
- Domestic Sales Business Operation Management – operation transformation
- Domestic Sales Distribution Management – marketing strategy research, sales and distribution development
- Domestic Sales Team Management - staff training and development

Expected Benefits to be brought about by Different Types of Projects supported by the Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund) to the Hong Kong Economy

Successful implementation of the enterprise part of the BUD fund will benefit the Hong Kong economy on several fronts. We expect that projects undertaken for developing brands, upgrading and restructuring operations and promoting sales in the Mainland domestic market would benefit the economy in the following ways –

- (a) On brand development, Hong Kong enterprises (e.g. brands in designer apparel, watch and jewelry, traditional Hong Kong-made food products) may apply for the BUD fund to carry out projects such as brand positioning and brand strategy in order to enter the Mainland market. In the process, they will need to engage the expertise from local creative industries such as product image and brand design. If the enterprises can successfully build up their brands and expand their sales network in the Mainland, they have to expand their business operations in Hong Kong, e.g. they have to employ additional staff in Hong Kong for production and product design. There will also be increased demand for services of related sectors such as advertising, logistics, testing and certification, financial services, etc. Even if the production line of some enterprises may be located in the Mainland, successful business development in the Mainland would also require strengthening of their backend support in Hong Kong, e.g. employing more staff to cope with work of marketing and promotion, sales and accounting, etc.
- (b) On developing domestic sales, projects do not need to be confined to local brands. For example, SMEs being agents of local or foreign brands may apply for the BUD fund to undertake projects such as strategic planning or development of sales and distribution channels in order to tap into the Mainland market. Same as brand development, the funded enterprises will need the expertise of other business sectors of Hong Kong, such as sales and marketing, to implement the funded projects, thus benefitting other sectors. Successful expansion of domestic sales in the Mainland will require strengthening of their operations in Hong Kong, e.g. employing more staff for marketing and promotion, sales and accounting, etc; and demand for services provided by other related sectors such as logistics will also increase.

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- (c) On upgrading and restructuring, projects for which enterprises may apply for the BUD fund include technology upgrading of the production lines of the Hong Kong enterprises in the Mainland, improving logistics management and upgrading production modality, etc. The funded enterprises will need the professional assistance of relevant Hong Kong companies including local consultancy companies engaged in production and operation management or certification of International Organisation for Standardisation to implement the funded projects. Furthermore, if the enterprises can successfully upgrade and restructure their business operations, this will help stabilise and even advance their business operations in Hong Kong, thus helping to preserve employment and even create new job opportunities in Hong Kong.

Enclosure 3 to FCR(2012-13)22

**Estimated Cost Breakdown of the Dedicated Fund on
Branding, Upgrading and Domestic Sales (the BUD Fund)^(Note 1)**

	Funding by Government (\$'000)	Contribution by HKPC (\$'000)	Total Cost (\$'000)
(I) Enterprise Part			
1. Funding provided for approved projects^(Note 2)	500,000	NA	500,000
2. Secretariat Services			
• Programme Director & Manager ^(Note 3)	0	5,800	5,800
• Programme Team Leader ^(Note 4)	15,000	5,800	20,800
• Programme Management & Administration ^(Note 5)	17,000	3,300	20,300
• Project Monitoring ^(Note 6)	24,000	0	24,000
Sub-total	56,000	14,900	70,900
3. Promotion, publicity, dissemination and others			
• Promotion and publicity ^(Note 7)	2,200	1,000	3,200
• Dissemination ^(Note 8)	1,000	600	1,600
• Others (e.g. audit fees) ^(Note 9)	800	0	800
Sub-total	4,000	1,600	5,600
Sub-total of Part (I)	560,000	16,500	576,500
(II) Organisation Part^(Note 10)	440,000	NA	440,000
TOTAL	1,000,000	16,500	1,016,500

Remarks

Note 1 : For cost estimation purpose, assuming the BUD fund will be implemented from 1 June 2012 and taking into account the disbursement of funds to approved projects in a phased approach, the actual disbursement funds may continue up to 2019-20 for meeting the requirements of projects approved in the latter phase of the five-year application period.

Note 2 : Assuming 1 000 enterprises each receiving the maximum amount of funding support of \$500,000.

Note 3 : The Hong Kong Productivity Council (HKPC) plans to assign one General Manager and one Principal Consultant to work on a part-time basis to oversee and supervise the implementation of the enterprise part of the BUD fund, as part of its contribution to this part of the BUD fund.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 4 : Funding by Government
The HKPC plans to engage one full-time dedicated Senior Consultant to act as the Programme Team Leader to coordinate the overall implementation of the enterprise part of the BUD fund.

Contribution by the HKPC
The HKPC also plans to assign one Senior Consultant to work on a part-time basis to assist in the work of the Team Leader, as part of its contribution to the implementation of the enterprise part of the BUD fund.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 5 : Funding by Government
The HKPC plans to engage a team comprising a number of Consultants and Project Officer to assist in programme management and administration. At the peak of the application period during which there would be substantial work relating to application processing, disbursement of funds and organisation of publicity and promotion activities, etc, the HKPC anticipates the need to engage three Consultants and one Project Officer to handle the work concerned.

Contribution by the HKPC
The HKPC also plans to assign two Consultants and one Project Officer to work on a part-time basis to assist in the work of the programme management and administration team, as part of its contribution to the implementation of the enterprise part of the BUD fund.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 6 : The HKPC plans to engage a team comprising a number of Consultants and Project Officer to assist in the monitoring work of approved projects. The HKPC may need to engage a team of four Consultants and one Project Officer for the monitoring work at the peak period.

The manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Note 7 : Expenditures involved for promoting the enterprise part of the BUD fund would include those for organising seminars, placing advertisements and production of promotional videos, etc. The HKPC will include the activities planned to be organised in the coming year in the annual implementation plan for prior approval by the Programme Management Committee (PMC) and provide a financial estimate for these activities. The Government will cover the actual expenses incurred on a reimbursement basis.

As part of its contribution to the implementation of the enterprise part of the BUD fund, the HKPC plans to assign one Project Officer to assist on a part-time basis, and contribute part of the speaker fees and venue rentals of seminars.

Note 8 : Expenditures involved for dissemination would include those of development and maintenance of a website on the enterprise part of the BUD fund, organising symposia and production and distribution of guidebooks for sharing of experience and success stories, etc. The HKPC will include the activities planned to be organised in the coming year in the annual implementation plan for prior approval by the PMC and provide a financial estimate for these activities. The Government will cover the actual expenses incurred on a reimbursement basis.

As part of its contribution to the implementation of the enterprise part of the BUD fund, the HKPC plans to assign one Project Officer to assist on a part-time basis.

Note 9 : To safeguard the proper use of public money, the HKPC will be required to produce to the PMC annual and final audited accounts in relation to its provision of secretariat services for the enterprise part of the BUD fund.

Note 10 : Assuming around 90 projects each receiving the maximum amount of funding support of \$5 million will be funded under the organisation part of the BUD fund.

Other expenses related to the implementation of the organisation part of the BUD fund (e.g. staff costs, promotion and publicity costs, etc) will be absorbed by Trade and Industry Department.
