

**For information  
on 21 May 2013**

**Legislative Council Panel on Commerce and Industry**

**Report on the progress of implementation of the Dedicated Fund on  
Branding, Upgrading and Domestic Sales**

**Purpose**

This paper briefs Members on the implementation progress of the Dedicated Fund on Branding, Upgrading and Domestic Sales (the “BUD Fund”).

**Background**

2. To capitalise on the opportunities arising from the National 12<sup>th</sup> Five-Year Plan and contribute to the long-term development of the Hong Kong economy, the Government encourages Hong Kong enterprises to enhance their competitiveness and sustain their development in the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. In this connection, the Government introduced the \$1 billion BUD Fund on 25 June 2012, which comprises the “Enterprises Support Programme” (the “ESP”) and the “Organisation Support Programme” (the “OSP”), to provide funding support to eligible Hong Kong enterprises and non-profit-distributing organisations (e.g. trade and industrial organisations, professional bodies or research institutes). Subject to the funding balance, the BUD Fund will be open for applications for five years, which may be reviewed if necessary.

3. The Government consulted Members on the objective, application eligibility, funding scope and principles, implementation arrangements and control mechanism, etc of the BUD Fund on 20 March and 17 April 2012 (see papers CB(1)1298/11-12(03) and CB(1)1549/11-12(05)). With the support of Members, the Finance Committee approved the relevant funding application on 11 May 2012 (see paper FCR(2012-13)22).

**Enterprises Support Programme**

4. The ESP provides funding support to enterprises on a matching basis to assist them in implementing projects to develop their brands, upgrade and restructure their business operations, and/or promote domestic sales in the

Mainland. Enterprises may apply for projects involving any one or more of the three specific BUD areas. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) with substantive business operations in Hong Kong are eligible to apply. For each approved project, the Government will fund 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. The maximum duration of a project is 24 months. During the tenure of the BUD Fund, each enterprise may obtain funding for a maximum of three approved projects, with a cumulative funding ceiling per enterprise at \$500,000.

5. When making an application, the applicant enterprise has to submit a holistic business plan and details of the project under application, including how the project could enhance its competitiveness and facilitate its business development in the Mainland. Enterprises may also apply for funding to engage a qualified service provider<sup>1</sup> to help develop the holistic business plan mentioned above.

6. The Government has established a Programme Management Committee (the “PMC”)<sup>2</sup> and an Inter-departmental Committee (the “IDC”)<sup>3</sup> to consider the applications under the ESP, and engaged the Hong Kong Productivity Council (the “HKPC”) to provide secretariat support to the programme. For each ESP application, the HKPC will provide a preliminary

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<sup>1</sup> 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 by the Programme Management Committee.

<sup>2</sup> The Committee is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), comprising members from the trade, SME associations, and those with expertise or experience in branding, upgrading and domestic sales.

<sup>3</sup> The Committee is chaired by the Deputy Director-General of Trade and Industry, comprising members from the Commerce and Economic Development Bureau, Innovation and Technology Commission, Environmental Protection Department, Create Hong Kong and Information Services Department.

assessment for the consideration by the IDC. The IDC will then make a recommendation to the PMC for its consideration and approval.

### Organisation Support Programme

7. The OSP provides funding support to non-profit-distributing organisations<sup>4</sup> for undertaking 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. 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. The maximum duration of a project is three years. The applicant organizations are required to submit a plan to set out the measures in implementing the project<sup>5</sup>, and how the project fulfils the objective of the BUD Fund. The applicant organisation is also required to share the results and deliverables of the project widely with the industry.

8. The OSP is implemented by the Trade and Industry Department (the “TID”). The Government has established a separate vetting committee<sup>6</sup> to consider the applications under the OSP.

## **Implementation Progress**

### Overview

9. The response of the trade has been overwhelming since the introduction of the BUD Fund. We have so far received over 700 applications under four batches. Up to the end of April 2013, we have processed the first three batches comprising 519 applications under the ESP. Excluding the 115 applications subsequently withdrawn by the enterprises, there are 404 valid applications, amongst which 77 were approved and 53 were granted conditional approval<sup>7</sup>. The average amount of grants per approved application is around \$400,000, and the highest and lowest amount of funding approved are \$500,000 and \$15,000 respectively. The total amount of funding approved is

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<sup>4</sup> The applicant should either be a statutory organisation or an organisation registered under the laws of the Hong Kong Special Administrative Region.

<sup>5</sup> Examples of the measures include seminars, workshops, conferences, exhibitions, surveys, demonstration on the application of technology, setting up of database, supporting facilities and service centres etc.

<sup>6</sup> The committee is chaired by the Director-General of Trade and Industry, comprising members from different disciplines of the trade and industry.

<sup>7</sup> The final approval of such applications and the amount of grants will be subject to further information submitted by the applicants.

about \$31 million. We are now processing the 147 ESP applications received under the fourth batch (with the deadline of application at end March 2013).

10. For the OSP, up to the end of April 2013, we have processed the first three batches of 54 applications. Excluding the 7 applications subsequently withdrawn by the organisations, there are 47 valid applications, amongst which 21 were approved. The average amount of grants per approved application is around \$3.55 million, and the highest and lowest amount of funding approved are \$5 million and \$914,000 respectively. The total amount of funding approved is about \$74.5 million. We are now processing the 18 OSP applications received under the fourth batch (with the deadline of application at end March 2013).

#### Principles for assessment

11. For the ESP, to ensure the proper use of public money, the HKPC, the IDC and the PMC will take into account the following major guiding principles in assessing the applications received –

- (i) *The project should lead to immediate or long-term business development in the Mainland in the specific BUD area(s):* To ensure that the project fulfills the objective of the BUD Fund, apart from the aim, implementation details and expected deliverables of the project, the applicant enterprise is also required to provide a medium to long-term (3 to 5 years) holistic business plan, which comprises the project, to demonstrate how the project can facilitate the implementation of the holistic business plan to assist the enterprise in enhancing its competitiveness and business development in the Mainland. In addition, if the project involves the applicant's Mainland entity (for example, the project includes measures which enhance the production technology of the enterprise's factory in the Mainland), the applicant enterprise needs to demonstrate its direct investment relationship with the Mainland entity concerned, so as to ensure that the beneficiary is a Hong Kong enterprise.
- (ii) *The project should have good prospects of improving the competitive advantage of the applicant or its product/service in the Mainland:* One of the considerations is whether the project is, from a commercial angle, feasible and viable. For example, whether the product/service proposed to be sold in the Mainland has established a base in the market, whether the implementation plan of the project is concrete and clear, and whether the enterprise has adequate resources and ability to implement the project. The PMC members from different disciplines of the trade and industry would be able to provide valuable comments on the above from a commercial angle.

- (iii) *The project should have concrete deliverables to facilitate progress monitoring and evaluation of project outcome:* The applicant is required to propose the expected deliverables of the project in accordance with the measures to be implemented. We will consider whether the expected deliverables are quantifiable and measurable (for example “registration of a brand in the Mainland”, “participation in two trade fairs in the Mainland”), in order to serve as objective yardsticks for the monitoring and assessment of the project in the implementation stage.
- (iv) *The project should include solid actions for developing businesses in the Mainland:* The project under application should include elements targeting at the business development of the enterprise in the Mainland. If a project involves measures to be implemented in Hong Kong or other areas outside the Mainland, we will consider whether such measures could effectively assist the enterprise in enhancing its competitiveness and business development in the Mainland.
- (v) *The project should have a reasonable budget with itemised cost breakdown and detailed justifications of costs and expenses:* The applicant enterprise should provide a reasonable and clear budget, which also complies with the more detailed requirements drawn up by the PMC on several cost items (for example, recurrent operating costs such as the remuneration of existing staff, rental, water and electricity fees, as well as general office equipment/facilities will not be funded).

The PMC will review the above principles from time to time, and make improvements and elaborations where necessary.

12. For the OSP, the vetting committee takes into account the following considerations in assessing the applications –

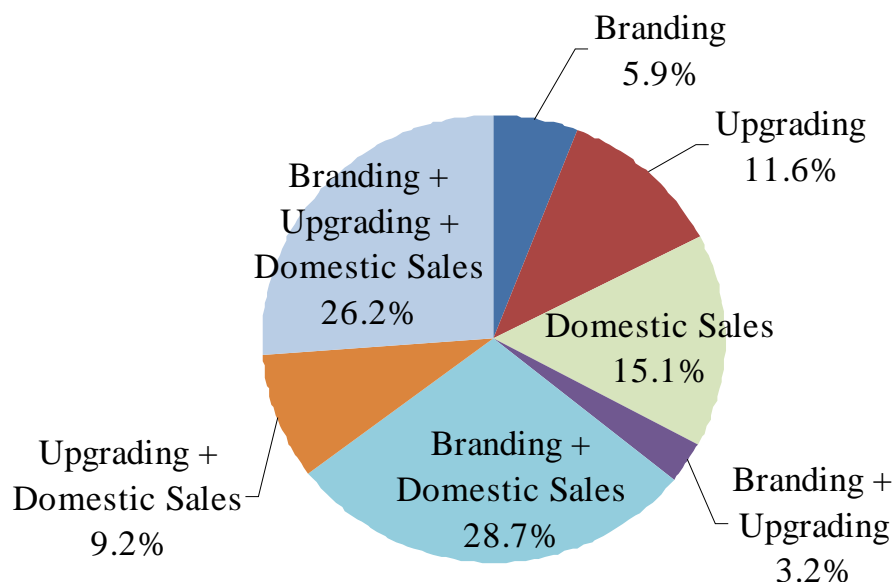
- (i) *Usefulness of project:* Whether the project is able to assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market, and whether the result of the project is of practical use to the enterprises.
- (ii) *Cost-effectiveness:* The number of enterprises which may benefit from the funded project, and whether the implementation of the project (for example the approach adopted) is cost-effective.
- (iii) *Project implementation:* Whether the implementation plan of the project (including the implementation schedule, business and publicity plan) is effective, whether the applicant and the project team have

good technical and management capability, whether the proposed budget is reasonable and realistic, and whether the project can be completed in 3 years.

- (iv) *Other factors:* Whether other funding sources is available for the project, and whether the project will duplicate the work carried out by other organisations.

### Analysis of applications

13. Analysis of the 404 valid applications received in the first three batches under the ESP is as follows. The applications cover different area(s) of BUD; the area covered most by projects is domestic sales, followed by branding. More projects (41%) involve two of the BUD areas, while 26% involve all the three areas of BUD. The scope and parameters of the BUD Fund have provided adequate room and flexibility to allow enterprises to implement various kinds of projects, so as to cope with their different development directions. For example, approved projects include “upgrading” projects which aim to assist the enterprise in upgrading from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and/or Own Branding and Manufacturing (OBM), and enhancing the manufacturing technology and management system; and also “BUD” projects which assist enterprise in enhancing the product quality, establishing and promoting a new brand, and expanding the sales channels in the Mainland. The distribution of applications by project nature is shown in the following chart –



14. The applicant enterprises are involved in a wide range of industries, with manufacturing industries and non-manufacturing industries amounting to 46% and 54% of the applications respectively. Applications from manufacturing industries are mainly related to textiles and clothing (5.9%), electronics (5.7%), plastics (4.5%) and watches and clocks (4.2%)<sup>8</sup>; while those from non-manufacturing industries are mainly related to wholesale and retail (19.8%), import and export trade (6.9%) and information technology (6.2%). Most of the applicants are SMEs<sup>9</sup>. The average number of full-time staff employed by the applicant enterprises in Hong Kong are 17 (for non-manufacturing industries) and 14 (for manufacturing industries, excluding staff employed in Mainland factories, if any) respectively. In addition, 41% of the enterprises have not explored businesses in the Mainland before, while 58% have developed businesses in the Mainland, amongst which 68% have established Mainland business entities (such as factories and shops). This demonstrates that the BUD Fund could on the one hand help encourage enterprises to explore businesses in the Mainland market, and could, on the other hand, assist those who already have businesses in the Mainland to further develop, so as to capture the opportunities brought by the policy of expanding domestic consumption and upgrading and restructuring of industries under the National 12<sup>th</sup> Five-Year Plan.

15. On the duration for project implementation, 40% of the projects are expected to be completed in 6 to 12 months, while 51% are expected to be completed in 12 to 24 months. The average total cost of the projects is around \$1.48 million, with the highest and lowest total cost at \$30 million and \$6,000 respectively.

16. Amongst the 77 approved projects, 36 (47%) are from manufacturing industries while the other 41 (53%) are from non-manufacturing industries. Enterprises of 71 projects indicated that due to the implementation of the projects and the subsequent development of their businesses, their demand for other services in Hong Kong, mainly advertisement, sales and marketing, printing and publishing, professional services, and transportation etc, is expected to increase. Enterprises of the approved projects also plan to create 84 new job opportunities in Hong Kong during project implementation, bringing benefit to the economy and employment market of Hong Kong.

17. Regarding the OSP, analysis of the 47 valid applications received in the first three batches of applications is as follows. Most of the applications involve both branding and domestic sales (40%), followed by domestic sales

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<sup>8</sup> Applicant enterprises involved in more than one industries are categorised based on their core business or the business with a larger scale.

<sup>9</sup> Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

projects (34%), and branding projects (13%). Approved projects include “branding and domestic sales” project which introduces and promotes Hong Kong products and services in the Mainland market through participation in large-scale Mainland exhibitions and roadshows, setting up of “Hong Kong pavilions” in exhibitions to showcase Hong Kong brands, and collaboration with retail networks in the Mainland etc. On industries involved, around 30% of the applications under the OSP aim to benefit enterprises in general, followed by the information technology industry (13%), restaurants and hotels (6%) and electronics (6%). Applications from manufacturing industries and non-manufacturing industries amount to 35% and 65% respectively.

18. Most of the applications (53%) are expected to be completed within 12 to 24 months. The average total cost of the projects is \$4.5 million, with the highest and lowest total cost at \$7.49 million and \$1.2 million respectively.

19. As for the 21 approved projects, manufacturing industries and non-manufacturing industries each take up around half. Approved projects are being implemented gradually. Given the diversity of the projects in terms of type and nature, it is expected that they will be able to encourage enterprises of various industries in Hong Kong to develop brands, upgrade and restructure their business operations and explore the domestic market, in order to enhance the competitiveness of various industries in the Mainland.

### **Monitoring and Review**

20. Under the ESP, enterprises are required to submit project completion reports and audited accounts upon project completion. Depending on the duration of the projects, interim progress reports and annual audited accounts may be required. To enhance monitoring of the approved projects, apart from the review of the HKPC, the IDC and the PMC of the progress and final reports submitted by the enterprises, the HKPC will also conduct on-site checking of selected projects. Under the OSP, to monitor the progress and effectiveness of the approved projects, TID and the vetting committee will review the progress and final reports submitted by the non-profit-distributing organizations. We will closely monitor the progress of the projects under the two programmes to ensure that public money is used properly, and will assess the effectiveness of the programmes upon completion of the projects.

### **Promotion and Publicity**

21. To enhance the awareness of the BUD Fund amongst enterprises and organisations, we have been implementing promotional and publicity activities proactively. For the ESP, up to the end of April 2013, the HKPC has organised 17 and 3 seminars in Hong Kong and the Pearl River Delta Region



respectively to introduce the application criteria and procedures of the BUD Fund to enterprises, and explain matters which require the enterprises' attention in making applications. The seminars have attracted over 2 100 participants. In addition, the HKPC has participated in 30 activities organised by other organizations (such as the Hong Kong Trade Development Council and different trade and industry organizations) to promote the BUD Fund to enterprises. The HKPC will continue to organise and participate in the relevant activities in 2013-14.

22. Following the completion of the approved projects, the HKPC plans to organise two symposiums in 2013-14 to invite funded enterprises to share with other enterprises their experiences in implementing the projects and the benefits brought to the development of their businesses. To further enhance the publicity effect, and explain the essential elements of successful applications to enterprises who are interested in applying for the BUD Fund, the HKPC will produce a promotional video for broadcasting on the various promotional and publicity platforms of the HKPC, including the dedicated website of the ESP. The HKPC will also publish a guidebook to consolidate the experiences of enterprises from various industries in applying for the Fund and implementing projects, which will be uploaded to the ESP website and distributed in the symposiums and seminars free of charge.

23. As regards the OSP, TID has been maintaining close contact with the trade to promote and publicise the programme. Up to the end of April 2013, TID has processed about 700 enquiries, and conducted over 120 meetings with trade and industry organisations, professional bodies and research institutes. TID has also explained the application criteria and requirements of the Fund to trade and industry organizations from time to time, and will continue to gauge the view of the trade from different channels, with a view to improving the implementation details of the programme.

### **Advice Sought**

24. Members are requested to note this paper.

Commerce and Economic Development Bureau  
Trade and Industry Department  
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