

**For information  
on 15 April 2014**

**Legislative Council Panel on Commerce and Industry**

**Progress report on the implementation of the Dedicated Fund on  
Branding, Upgrading and Domestic Sales**

**Purpose**

This paper briefs Members on the latest 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 12th 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 further their business 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 “Enterprise Support Programme” (the “ESP”) and the “Organisation Support Programme” (the “OSP”), which provide funding support to eligible enterprises and non-profit-distributing organisations (e.g. industry and trade organisations, professional bodies or research institutes) respectively. Subject to the funding balance, the BUD Fund will be open for applications for five years, which may be reviewed if necessary. A brief introduction of the ESP and the OSP is at **Annex**.

**Implementation Progress**

**Overview**

3. The response of the trade has been continuously overwhelming since the introduction of the BUD Fund. For the ESP, up to the end of March 2014, we have received a total of 1 027 applications under eight batches, and processed the first seven batches of a total of 949 applications. For the 949 applications, excluding the 221 applications subsequently withdrawn by the enterprises, there are 728 applications, amongst which 205 were approved and

24 were granted conditional approval<sup>1</sup>. The average amount of grants per approved application is around \$430,000, and the highest and lowest amounts of funding approved are \$500,000 and \$15,000 respectively. The total amount of funding approved is about \$88.2 million<sup>2</sup>. We are now processing the eighth batch of applications (with the deadline of application at the end of March 2014).

4. For the OSP, up to the end of March 2014, we have received a total of 108 applications under eight batches, and processed the first seven batches of a total of 104 applications. Excluding the 17 applications subsequently withdrawn by the organisations, there are 87 applications, amongst which 38 were approved. The average amount of grants per approved application is around \$3.3 million, and the highest and lowest amounts of funding approved are \$5 million and \$720,720 respectively. The total amount of funding approved is about \$125 million. We are now processing the eighth batch of applications (with the deadline of application at the end of March 2014).

## **Analysis of Applications**

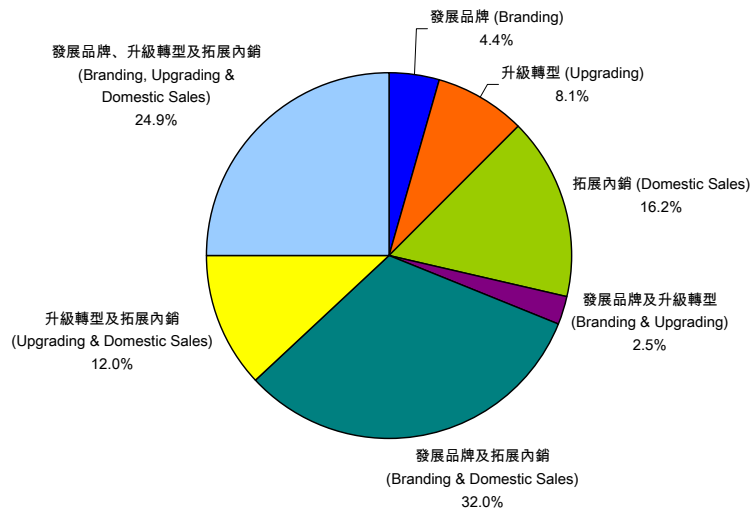
### The ESP

5. Regarding the ESP, the 728 applications under the first seven batches cover different area(s) of **branding**, **upgrading** and **restructuring** operations and promoting **domestic sales** (abbreviated as BUD). The area covered most by these applications is domestic sales, followed by branding. Relatively more applications (46.5%) involve two of the three areas of BUD, while 24.9% involve all the three areas of BUD. The funding scope and conditions of the BUD Fund have provided sufficient room and flexibility to allow enterprises to implement various kinds of projects according to their own development directions. For example, approved projects include upgrading and restructuring projects which assist the enterprises concerned in upgrading from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and/or Own Branding and Manufacturing (OBM), and enhancing their manufacturing technology and management systems; and BUD projects which assist the enterprises concerned in enhancing the product quality, establishing and promoting new brands, and expanding sales channels in the Mainland. The distribution of applications by nature is shown in the following chart –

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<sup>1</sup> The final approval of such applications and the amount of grants will be subject to further information submitted by the applicants.

<sup>2</sup> Excluding applications granted conditional approval.



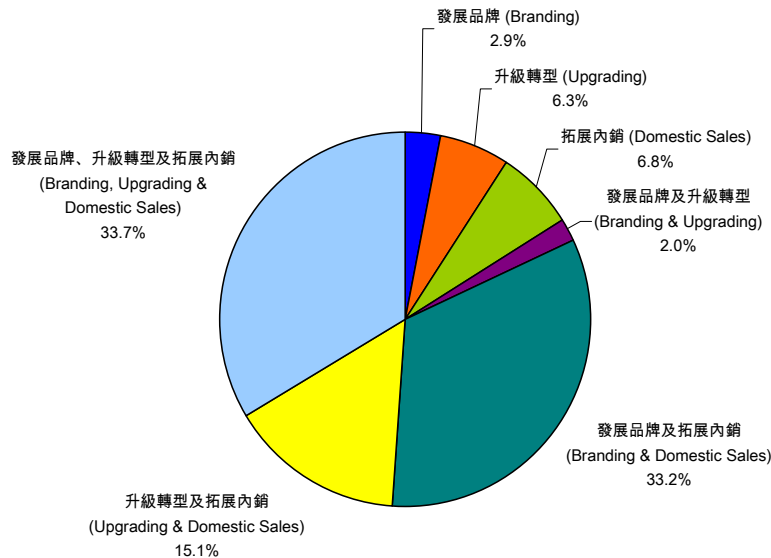
6. On the industry distribution, the applicant enterprises come from a wide range of industries, with manufacturing industries and non-manufacturing industries accounting for 40% and 60% of the applications respectively. Applications from manufacturing industries are mainly from the electronics (5.5%), textiles and clothing (5.1%), plastics (3.4%) and watches and clocks (2.7%) industries<sup>3</sup>; while those from non-manufacturing industries are mainly from the wholesale and retail (21.3%), import and export trade (9.6%) and information technology (6.9%) industries. Most of the applicants are SMEs (around 96%)<sup>4</sup>. The average number of full-time staff employed by the applicant enterprises in Hong Kong are 16 (for manufacturing industries, excluding staff employed in Mainland factories, if any) and 22 (for non-manufacturing industries) respectively. In addition, 36% of the applicant enterprises have not developed business in the Mainland market before, while 64% have, amongst which 39% have established Mainland business entities (such as factories and shops). This shows that the BUD Fund can on one hand encourage enterprises to explore business in the Mainland market, and on the other hand, assist those who already have business in the Mainland to develop further, so as to capture the opportunities brought about by the policy of expanding domestic consumption and upgrading and restructuring of industries under the National 12<sup>th</sup> Five-Year Plan.

7. On the duration of implementation, 48% of the applications are expected to be completed in 6 to 12 months, while 46% are expected to be completed in 13 to 24 months. The average total cost of the applications is around \$1.34 million, with the highest and lowest total costs at \$30 million and \$6,000 respectively.

<sup>3</sup> Applicant enterprises involved in more than one industries are categorised based on their core business or the business with a larger scale.

<sup>4</sup> SMEs refer to manufacturing enterprises with fewer than 100 employees in Hong Kong and non-manufacturing enterprises with fewer than 50 employees in Hong Kong.

8. As for the 205 approved projects, the area covered most is domestic sales, followed by branding. Relatively more projects (50.3%) involve two of the three areas of BUD, while 33.7% involve all the three areas of BUD. The distribution of approved projects by nature is shown in the following chart –



9. On the industry distribution, 107 (52%) approved projects are from manufacturing industries while the other 98 (48%) are from non-manufacturing industries. Projects from manufacturing industries are mainly from the textiles and clothing (5.4%), watches and clocks (5.4%), electronics (4.9%) and plastics (4.9%) industries<sup>5</sup>; while those from non-manufacturing industries are mainly from the wholesale and retail (17.6%), import and export trade (7.3%) and information technology (5.9%) industries. Most of the enterprises of approved projects are SMEs (around 94%). The average number of full-time staff employed by these enterprises in Hong Kong are 20 (for manufacturing industries, excluding staff employed in Mainland factories, if any) and 21 (for non-manufacturing industries) respectively. 16% of the enterprises have not developed business in the Mainland market before, while 84% have, amongst which 62% have established Mainland business entities (such as factories and shops). On the duration of implementation, 46% of the projects are expected to be completed in 6 to 12 months, while 50% are expected to be completed in 13 to 24 months. The average total cost of the approved projects is around \$1.06 million, with the highest and lowest total costs at \$3.8 million and \$30,000 respectively. Enterprises of 188 projects have 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, import and export trade, professional services, and transportation, etc, is expected to increase. Funded enterprises also plan to create 215 new job opportunities in Hong Kong

<sup>5</sup> Applicant enterprises involved in more than one industries are catergorised based on their core business or the business with a larger scale.

during project implementation. It is expected that the implementation of approved projects will bring benefits to the overall economy and employment market of Hong Kong.

### The OSP

10. Regarding the OSP, most of the 87 applications under the first seven batches involve both branding and domestic sales (38%), followed by those on domestic sales (30%). Approved projects of branding and domestic sales involve the introduction and promotion of Hong Kong products and services into 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 the industry distribution, around 30% of the applications under the OSP aim to benefit enterprises in general. The remaining applications spread evenly over some 20 industries, with relatively more from the information technology industry (10%).

11. Most of the applications (60%) are expected to be completed within 12 to 24 months. The average total cost of the projects is around \$4 million, with the highest and lowest total costs at \$7.49 million and \$680,000 respectively.

12. As for the 38 approved projects, most of them involve both branding and domestic sales (53%), followed by those on domestic sales (18%). On the industry distribution, around 50% are from manufacturing industries and around 24% are from non-manufacturing industries, spreading evenly over some 10 industries with relatively more from the information technology industry (11%), whilst the remaining 26% are cross-sector projects. Most of the projects (55%) are expected to be completed within 12 to 24 months. The average total cost of the approved projects is around \$3.66 million, with the highest and lowest total costs at \$5.6 million and \$800,800 respectively. Given the diversity of the projects in terms of type and nature, it is expected that they will be able to encourage various industries in Hong Kong to develop brands, upgrade and restructure business operations and explore the domestic sales market, in order to enhance their competitiveness in the Mainland.

## **Implementation, Monitoring and Review of Projects**

### The ESP

13. Under the ESP, enterprises are required to submit final reports and audited accounts upon project completion. Depending on the duration of the projects, progress report(s) and annual audited accounts may be required. The Hong Kong Productivity Council (the “HKPC”) as the secretariat would review the progress and final reports of the enterprises, before submission to the Inter-Departmental Committee (the “IDC”) and the Programme Management

Committee (the “PMC”) for consideration. In addition, to enhance monitoring of the approved projects, the HKPC also conducts on-site checking of selected projects.

14. Up to the end of March 2014, 162 approved projects have commenced under the ESP, amongst which 6 projects have been completed with final reports submitted and another 5 projects have terminated. The HKPC, IDC and PMC have considered 10 progress reports and 6 final reports according to the above-mentioned mechanism. The HKPC has also conducted 15 on-site checkings to review the progress of the projects, and provide suggestions to the enterprises regarding the implementation of the projects concerned.

### The OSP

15. Under the OSP, to monitor the progress and effectiveness of the approved projects, the Trade and Industry Department (the “TID”) would review the progress and final reports of the non-profit-distributing organisations, before submission to the vetting committee for consideration. Up to the end of March 2014, 31 approved projects have commenced under the OSP, amongst which 5 projects were completed. The TID and the vetting committee have considered 11 progress reports according to the above-mentioned mechanism. The final reports of completed projects will be submitted by the funded organisations.

16. We will continue to closely monitor the progress and deliverables of the approved projects under the ESP and the OSP to ensure the proper use of public funds, and will assess the overall effectiveness of the two programmes upon completion of the projects.

### **Promotion and Publicity**

17. 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 March 2014, the HKPC has processed over 5 000 enquiries, and implemented the following major initiatives –

- (i) organising 33 and 3 seminars in Hong Kong and the Pearl River Delta Region respectively, which attracted over 3 250 participants, to introduce the application criteria and procedures of the ESP and explain matters requiring attention in making applications;
- (ii) participating in 41 activities organised by other organisations and trade and industry associations to promote the BUD Fund to enterprises;
- (iii) organising a symposium to invite funded enterprises to share with other enterprises their experiences in implementing the funded projects and the real benefits brought by the projects to the

- development of their businesses; to explain matters requiring attention in making applications; and to provide cases of successful and unsuccessful applications;
- (iv) organising 4 seminars for service providers (including those assisting enterprises in the development of holistic business plans and/or the implementation of projects) to explain matters requiring attention in making applications and provide them with cases of successful and unsuccessful applications;
- (v) producing a short interview video on tips for successful applications and broadcasting it through the ESP website and social media;
- (vi) uploading onto the ESP website important points to note in making applications and enhancing the application form by incorporating clearer guidelines to application;
- (vii) providing advice to enterprises on applications through meetings between staff of the secretariat and representatives of enterprises. Enterprises can make meeting appointments through e-mail or hotline; and
- (viii) promoting the ESP and matters requiring attention in making applications using a story-telling approach through radio broadcasting.

18. The secretariat will continue to implement various measures proactively (including uploading onto the ESP website model cases of successful and unsuccessful applications for reference by enterprises, and producing a new promotional video to explain the tips for successful applications in more detail), so that enterprises can better understand the vetting requirements of the ESP and the key to making successful applications. To further help enterprises know more about the effective means in pursuing BUD initiatives with real-life examples, the secretariat will also publish a guidebook on the experiences of enterprises from various industries in implementing funded projects and the effectiveness of such projects, which will be uploaded onto the ESP website and distributed in seminars and symposia free of charge.

19. For the OSP, the TID has been maintaining close contact with the trade to promote and publicise the programme. Up to the end of March 2014, the TID has processed more than 1 300 enquiries, and conducted over 140 meetings with trade and industry associations, professional bodies and research institutes. The TID also explains the requirements and application procedures of the OSP to the trade and industry associations from time to time, and provides consultation service to interested organisations. For example, the TID can meet with the applicant organisation before the latter submits an application, to explain to the applicant the requirements and application procedures and to provide initial comments on the application so that the applicant may improve the application. The TID will continue to gauge the

views of the trade through different channels, with a view to improving the implementation details of the OSP.

### **Administrative Issues**

20. As the secretariat of the ESP, the HKPC is responsible for coordinating the administrative work of the ESP, including receiving and undertaking initial vetting of applications, coordinating the further vetting of applications by the IDC and the PMC, disbursing funding for approved projects, monitoring the progress of approved projects, planning and organising publicity and promotional activities, and providing consultation service to interested enterprises, etc. According to the financial estimates we provided to the Finance Committee of the Legislative Council when funding approval for the BUD Fund was sought, the relevant expenditure would be around \$77 million. During the implementation period of the BUD Fund, the Government will disburse a total of \$60 million to the HKPC to cover the bulk of the expenses incurred for implementing the ESP. As the implementation partner of the ESP, the HKPC would be responsible for the rest of the relevant expenditure, which amounts to about \$17 million.

21. Up to the end of March 2014, the administrative cost borne by the Government for the HKPC's work relating to the implementation of the ESP is around \$18.6 million. The HKPC has contributed around \$6.8 million for the relevant work, including professional manpower support to supervise and carry out the work of the secretariat, and other ancillary technical and support services.

22. As for the OSP, the TID provides the secretariat support with its existing resources.

23. Separately, some members have raised enquiries about the systems for declaration of interests adopted by the PMC of the ESP and the vetting committee of the OSP. To avoid conflicts of interest, both the PMC of the ESP and the vetting committee of the OSP adopt a two-tier system for declaration of interests. According to the current systems, committee members, upon their first appointment and annually thereafter, are required to register in writing their personal interests with the secretariat of the committee concerned. Furthermore, if a committee member has any direct personal or pecuniary interest or potential conflict of interest in respect of any application being vetted, he must also make a declaration. Before the vetting of applications starts at every committee meeting, the Chairman of the committee concerned will also remind members of the need to declare any actual or potential conflict of interest.

24. Members of the PMC of the ESP and the vetting committee of the OSP include personalities from the trade and SME associations as well as persons with expertise or experience in BUD. Given the experience of

committee members in the business sector, it is not uncommon if committee members are members of chambers of commerce or trade and industry associations, or have even taken up major positions in such organisations. Their knowledge, experience and enthusiasm would enable the committees to consider the applications in a holistic manner.

25. Regarding the ESP, generally speaking, if a PMC member is the owner of an applicant enterprise, works for it or has business dealings with it, he must recuse himself from the meeting when the relevant application is vetted. If a PMC member and the key person(s) of an applicant enterprise hold major positions of the same chamber of commerce / trade and industry association, the member should make a declaration and the PMC Chairman will decide whether the member concerned should recuse himself from the meeting when the relevant application is vetted. As for the OSP, generally speaking, if a member of the vetting committee has direct involvement in the preparation of an application, has provided concrete views on an application, or has participated in the internal decision of the applicant organisation in respect of an application, he must recuse himself from the meeting when the vetting committee considers the relevant application. If a committee member holds a major position in the applicant organisation or is a member of the organisation, he should declare such relationship of his with the applicant organisation and any actual or potential conflict of interest, so as to ensure that the vetting process is and is perceived by the public to be objective, fair and impartial. The Chairman of the vetting committee will then decide whether the member concerned should recuse himself from the meeting.

26. As regards the HKPC, an internal “firewall” has been set up whereby staff of the ESP secretariat will not take part in the provision of consultancy service or the implementation of any application or approved project under the ESP, so that it will not give rise to any conflict of interest. To further alleviate public concerns, the HKPC (including staff not working for the ESP secretariat) no longer provides consultancy service to any new approved project under the ESP since the end of January 2013. Furthermore, while the HKPC serves as the secretariat of the ESP, it is not involved in any of the work of the OSP. Therefore, the HKPC’s serving as the implementation agent of certain OSP projects does not give rise to any conflict of interest.

### **Advice Sought**

27. Members are invited to note this paper.

Commerce and Economic Development Bureau  
Trade and Industry Department  
April 2014

**Dedicated Fund on Branding, Upgrading and Domestic Sales  
(BUD Fund)**

**Brief Introduction of the Enterprise Support Programme  
and the Organisation Support Programme**

**The Enterprise Support Programme (ESP)**

- 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 (abbreviated as BUD). Enterprises may apply for funding for projects involving any one or more of the three specific areas of BUD.
- 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 funding under the ESP.
- 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 projects, with a cumulative funding ceiling per enterprise at \$500,000.
- When making an application, the applicant enterprise has to submit a holistic business plan and details of the proposed project, 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

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<sup>1</sup> A qualified service provider should comply with the following requirements at the time of 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

plan mentioned above.

- 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 and to monitor the progress of approved projects 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 assessment for consideration by the IDC. The IDC will then make a recommendation to the PMC for the latter’s consideration and approval.
- 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 of the applicant enterprise in the Mainland in the specific BUD area(s):* To ensure that the proposed project meets 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 covering 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 furthering business development in the Mainland. In addition, if the project involves the applicant’s Mainland entity(ies) (for example, the project includes measures to 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.

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(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 PMC is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), with members comprising personalities from the trade and SME associations as well as persons with expertise or experience in branding, upgrading and restructuring and domestic sales.

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

- (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 proposed 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 sectors of the trade would be able to provide valuable comments on the above from the commercial angle.
- (iii) *The project should have concrete deliverables to facilitate progress monitoring and evaluation of project outcome:* The applicant is required to set out the expected deliverables of the proposed project in accordance with the measures proposed to be implemented. We will consider whether the expected deliverables are concrete 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 monitoring the progress and assessing the outcome of the project in the implementation stage.
- (iv) *The project should include solid actions for developing business in the Mainland:* The proposed project should include elements targeting at the business development of the enterprise in the Mainland. If the 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 furthering its 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 complies with the more detailed requirements drawn up by the PMC on certain cost items (for example, general and day-to-day operating expenses such as the remuneration of existing staff, rental, water and electricity fees, as well as general office supplies/equipment will not be funded).

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

### The Organisation Support Programme (OSP)

- 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/or 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 organisation is required to submit a plan to set out how the proposed project is to be implemented<sup>5</sup>, and how it would fulfil 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.
- 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 received under the OSP. The vetting committee will consider the following major aspects –
  - (i) *Usefulness of the proposed project*: Whether the proposed 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/or promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market; and whether the results of the project would bring real benefits to the enterprises.
  - (ii) *Cost-effectiveness*: The number of enterprises which may benefit from the proposed project, and whether its implementation (for example, the approach to be adopted) is cost-effective.

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<sup>4</sup> The applicant organisation 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 measures that can be undertaken in a project include seminars, workshops, conferences, exhibitions, surveys/studies, demonstration on technology application, setting up of database, supporting facilities and service centre, 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.

- (iii) *Implementation:* Whether the implementation plan of the proposed project (including its implementation schedule, business and publicity plan) is effective, whether the applicant and its project team have good technical and management capability, whether the budget is reasonable and realistic, and whether the project can be completed in three years.
- (iv) *Other factors:* Whether other funding source(s) are available for the proposed project, and whether it will duplicate the work carried out by other organisations.