

# **立法會**

## ***Legislative Council***

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### **Panel on Commerce and Industry**

**Meeting on 15 April 2014**

#### **Updated background brief on the dedicated fund on branding, upgrading and domestic sales**

#### **Purpose**

This paper provides background information on the dedicated fund on branding, upgrading and domestic sales (the BUD fund). It also provides a summary of views and concerns expressed by the Panel on Commerce and Industry (the Panel) on the subject in previous discussions.

#### **Background**

2. The National 12th Five-Year Plan emphasizes expanding domestic demand as well as upgrading and restructuring of industries. In August 2011, the then Vice-Premier of the State Council, Mr LI Keqiang, reiterated during his visit to Hong Kong that the Central People's Government supported the stable development and upgrading and restructuring of Hong Kong enterprises engaged in processing trade<sup>1</sup> in the Mainland. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-2012 Policy Address the proposal to set up a \$1 billion BUD fund to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland.

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<sup>1</sup> 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.

3. The funding proposal for the BUD fund was approved by the Finance Committee on 11 May 2012 and the BUD fund was launched on 25 June 2012.
4. Subject to the funding balance, the BUD fund will be open for applications for five years, which may be reviewed and extended, if necessary. The BUD fund comprises two programmes, namely Enterprise Support Programme and Organization Support Programme.

#### Enterprise Support Programme

5. The Enterprise Support Programme (ESP) of the BUD fund provides funding support to individual Hong Kong enterprises in undertaking projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland market, so as to enhance their competitiveness and facilitate their business development in the Mainland market. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations<sup>2</sup> 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 project can enhance their competitiveness and facilitate their business development in the Mainland. If necessary, an enterprise may also apply for funding under the BUD fund to engage a qualified service provider to help develop a business plan.
6. 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.
7. 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.
8. The Administration has established a Programme Management Committee (PMC)<sup>3</sup> and an Inter-departmental Committee (IDC)<sup>4</sup> to consider the applications under the ESP. The Hong Kong Productivity Council (HKPC)

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<sup>2</sup> For example, a shell company will not be regarded as having substantive business operations in Hong Kong.

<sup>3</sup> The PMC is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), comprising members from the trade, small and medium enterprise associations, and those with expertise or experience in branding, upgrading and domestic sales.

<sup>4</sup> The IDC 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.

is engaged to provide secretariat support to the programme. For each ESP application, HKPC will provide a preliminary assessment for the consideration by the IDC. The IDC will then make a recommendation to the PMC for its consideration and approval.

### Organization Support Programme

9. The Organization Support Programme of the BUD fund provides funding support to non-profit-distributing organizations (e.g. trade and industrial organizations, professional bodies or research institutes) to undertake projects<sup>5</sup> 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 organizations in Hong Kong<sup>6</sup> are eligible to apply.

10. In view that brand building and developing the Mainland domestic market will require relatively long-term and sustainable efforts, the objective of the Organization Support Programme is to 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.

11. The Trade and Industry Department provides secretariat services to implement the Organization Support Programme of the BUD fund. Applications are considered by a vetting committee chaired by the Director-General of Trade and Industry and comprises members from different disciplines and sectors.

### **Previous discussions by the Panel**

12. The Panel has discussed the Administration's proposal to set up the BUD fund at its meetings on 20 March and 17 April 2012. The Panel was subsequently briefed on the implementation progress of the BUD fund on 21 May 2013.

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<sup>5</sup> Examples of the projects 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 applicant should either be a statutory organization or an organization registered under the laws of the Hong Kong Special Administrative Region.

13. On the ESP, some members expressed concern about the time frame of 24 months allowed for the completion of each project, the vetting mechanism of applications and the role of HKPC, and enquired about the details of the disbursement to HKPC for providing the secretariat services. Concerns were also raised about the long processing time of applications reflected by some applicant enterprises and the difficulties faced by small and medium enterprises (SMEs) in preparing a holistic business plan when applying for the BUD fund. The Administration was requested to simplify the application procedures to facilitate application by SMEs, and provide other non-financial support to help SMEs in developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland. There was a suggestion to raise the cumulative funding ceiling of \$500,000 per enterprise.

14. Some members called for close monitoring of the funded projects to ensure alignment with objectives of the BUD fund. These members were concerned that although a key objective of the BUD fund was to support the upgrading and restructuring of Hong Kong enterprises engaged in import processing operations in the Mainland, the number of applications from manufacturing enterprises was lower than that from non-manufacturing enterprises.

15. Some other members questioned whether the BUD fund would give rise to "transfer of benefits" to a small group of enterprises. To safeguard the interests of SMEs in Hong Kong, these members considered that the application for BUD fund should be open to SMEs only, but not those large non-listed enterprises. Hon Dennis KWOK wrote to the Panel Chairman on 31 October 2013 (LC Paper No. CB(1)239/13-14(01)) raising concerns about the declaration of interest by members of the PMC and the vetting committee of the two programmes of the BUD fund, the size of beneficiary enterprises and the administrative costs of the BUD fund.

16. Some members were also concerned about the economic benefits expected to be brought about by the BUD fund to the overall economy of Hong Kong, especially the industrial sector and local workforce. Suggestion was made that the Administration should compile statistics by requiring the applicant enterprises to provide the requisite information (such as the number of offices and job opportunities to be created in Hong Kong) to facilitate the evaluation of the effectiveness and economic benefits to be brought about by the BUD fund to the overall economy of Hong Kong.

17. To extend product showcase network in the Mainland to promote Hong Kong products, some members called for more Design Galleries of the Hong Kong Trade Development Council to be set up in different Mainland cities. The Administration was also requested to set up show-and-sales centres in major Mainland cities to provide promotion and sales outlets for Hong Kong products on a long-term basis.

**Latest position**

18. The Administration will brief the Panel on 15 April 2014 on the latest implementation progress of the BUD fund and issues relating to the operation of the BUD Fund in response to Hon Dennis KWOK's letter dated 31 October 2013.

**Relevant papers**

19. A list of relevant papers is in the **Appendix**.

Council Business Division 1  
Legislative Council Secretariat  
9 April 2014

## Appendix

### Dedicated fund on branding, upgrading and domestic sales

#### List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
20/3/2012	Panel on Commerce and Industry	Administration's paper  Background brief  Minutes of meeting	CB(1)1298/11-12(03)  <a href="http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-3-e.pdf">http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-3-e.pdf</a>  CB(1)1298/11-12(04)  <a href="http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-4-e.pdf">http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0320cb1-1298-4-e.pdf</a>  CB(1)1787/11-12  <a href="http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120320.pdf">http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120320.pdf</a>
17/4/2012	Panel on Commerce and Industry	Administration's paper  Minutes of meeting	CB(1)1549/11-12(05)  <a href="http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0417cb1-1549-5-e.pdf">http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0417cb1-1549-5-e.pdf</a>  CB(1)1809/11-12  <a href="http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120417.pdf">http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120417.pdf</a>
11/5/2012	Finance Committee	Administration's paper	FCR(2012-13)22  <a href="http://www.legco.gov.hk/yr11-12/english/fc/fc/papers/f12-22e.pdf">http://www.legco.gov.hk/yr11-12/english/fc/fc/papers/f12-22e.pdf</a>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Minutes of meeting	FC183/11-12  <a href="http://www.legco.gov.hk/yr11-12/english/fc/fc/minutes/fc20120511.pdf">http://www.legco.gov.hk/yr11-12/english/fc/fc/minutes/fc20120511.pdf</a>
21/5/2013	Panel on Commerce and Industry	Administration's paper	CB(1)1026/12-13(04)  <a href="http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-4-e.pdf">http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-4-e.pdf</a>
		Background brief	CB(1)1026/12-13(05)  <a href="http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-5-e.pdf">http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-5-e.pdf</a>
		Minutes of meeting	CB(1)1485/12-13  <a href="http://www.legco.gov.hk/yr12-13/english/panels/ci/minutes/ci20130521.pdf">http://www.legco.gov.hk/yr12-13/english/panels/ci/minutes/ci20130521.pdf</a>