

**For information
on 17 March 2015**

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 help Hong Kong enterprises capitalise on the opportunities arising from the National 12th Five-Year Plan, the Government introduced in June 2012 the \$1 billion BUD Fund to assist enterprises in enhancing competitiveness and furthering business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland. The BUD Fund 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. trade and industrial 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. For the ESP, up to the end of December 2014, we have received a total of 1 203 applications under 11 batches, and processed the first 10 batches of a total of 1 158 applications. For the 1 158 applications, excluding the 268 applications subsequently withdrawn by the enterprises, there are 890 applications, amongst which 267 were approved and 19 were granted conditional approval¹. The total amount of funding approved is about \$119

¹ The final approval or otherwise of such applications and the amount of grant will be subject to the further information submitted by the applicant enterprises.

million². We are now processing the 11th batch of applications (with the deadline of applications at the end of December 2014).

4. For the OSP, up to the end of December 2014, we have received a total of 132 applications under 11 batches, and processed the first 10 batches of a total of 123 applications. For the 123 applications, excluding the 20 applications subsequently withdrawn by the organisations, there are 103 applications, amongst which 44 were approved. The total amount of funding approved is about \$143 million. We are now processing the 11th batch of applications (with the deadline of applications at the end of December 2014).

Analysis of Applications

The ESP

5. Regarding the ESP, of the 890 applications under the first 10 batches, most applications involve branding and developing domestic sales (32%), followed by applications that involve all the three areas of branding, upgrading and restructuring operations and developing domestic sales (27%). On the industry distribution, the applications from manufacturing industries and non-manufacturing industries account for 39% and 61% of the applications respectively. The applications come from more than 20 industries³, with relatively more from the wholesale and retail (22.0%), import and export trade (11.6%) and information technology (7.3%) industries. Around 97% of the applications come from SMEs⁴. The average numbers 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 19 (for non-manufacturing industries) respectively. Around 34% of the applicant enterprises have not yet started business in the Mainland, while 66% have. This shows that the BUD Fund can on one hand encourage enterprises to develop business in the Mainland market, and on the other hand assist those which have already had operations in the Mainland to develop further.

6. As for the 267 approved projects, 34% involve all the three areas of BUD while 32% involve branding and developing domestic sales. On the industry distribution, 136 approved projects (51%) are from manufacturing industries while the other 131 (49%) are from non-manufacturing industries. The projects involve more than 20 industries⁵, mainly from the wholesale and retail (19.9%), import and export trade (8.2%) and information technology (5.6%) industries. Around 96% of projects come from SMEs. The average number of full-time staff employed by these enterprises in Hong Kong are 18

² Excluding applications granted conditional approval.

³ Enterprises involved in more than one industries are categorised based on their core business or the business with a larger scale.

⁴ 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.

⁵ Enterprises involved in more than one industries are categorised based on their core business or the business with a larger scale.

(for manufacturing industries, excluding staff employed in Mainland factories, if any) and 19 (for non-manufacturing industries) respectively. 13% of the enterprises have not yet started business in the Mainland, while 87% have. On the project duration, 55% of the approved projects are expected to be completed in 6 to 12 months, while 43% are expected to be completed in 13 to 24 months. The average total cost of the approved projects is around \$1.09 million, with the highest and lowest total costs at \$3.8 million and \$30,000 respectively; and the average amount of grant per approved application is around \$450,000, with the highest and lowest amounts of funding approved at \$500,000 and \$15,000 respectively.

The OSP

7. Regarding the OSP, most of the 103 applications under the first 10 batches involve both branding and developing domestic sales (39%), followed by those that involve developing domestic sales only (30%). On the industry distribution, around 30% are cross-sector applications. The remaining applications spread over some 20 industries, with relatively more from the information technology industry (9%).

8. As for the 44 approved projects, most of them involve both branding and developing domestic sales (55%), followed by those involving the development of domestic sales only (18%). 46% are from manufacturing industries and 27% are from non-manufacturing industries, involving a total of 17 industries⁶, whilst the remaining 27% are cross-sector projects. Over half of the projects (59%) 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; and the average amount of grant per approved application is around \$3.3 million, with the highest and lowest amounts of funding approved at \$5 million and \$720,720 respectively.

Implementation, Monitoring and Review of Projects

The ESP

9. Under the ESP, 235 approved projects have commenced as at end of December 2014. Most of them were still in progress, while 24 projects were completed. The Hong Kong Productivity Council as the secretariat, the Inter-Departmental Committee and the Programme Management Committee have considered 41 progress reports and 24 final reports⁷. To enhance

⁶ 9% are from the information technology industry.

⁷ Enterprises of all approved projects are required to submit the final report and final audited accounts after project completion. For projects with duration of more than 12 months, enterprises are required to submit progress reports every six months to report on the latest progress of project implementation, and annual audited accounts. For projects with duration of or shorter than 12 months, progress reports are not required.

monitoring of the approved projects, the HKPC has completed on-site checkings on 66 selected projects.

The OSP

10. Under the OSP, 36 approved projects have commenced as at end of December 2014, amongst which 9 projects were completed. To monitor the progress and effectiveness of the approved projects, the Trade and Industry Department (TID) would review the progress and final reports of the projects, before submission to the vetting committee for consideration. TID and the vetting committee have considered 22 progress reports. Submission of the final reports of the completed projects by the funded organisations is in the pipeline.

Effectiveness of Projects

11. As mentioned in paragraph 2 above, the aim of the BUD Fund is to assist enterprises in enhancing competitiveness and furthering business development in the Mainland through developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland. Under the ESP, 24 projects have been completed. These enterprises generally considered that the projects had helped them in various ways, e.g. enhancing the awareness of their brands, improving the product quality, lowering the production costs, developing new products, establishing new domestic sales channels and increasing the competitive edge of their products, etc. An enterprise also has developed its own brand through the funded project. Although whether the Mainland business of the enterprises could develop successfully in the future would depend on a variety of factors, the funding under the BUD Fund can enhance the overall competitiveness of the enterprises and lay foundation for their further development in the Mainland market. In addition, if the funded Hong Kong enterprises achieve better development in the Mainland market, it would also benefit their business operations in Hong Kong in the long run, and generate demand for professional services or other services as well as create new job opportunities in Hong Kong. Of the 267 approved projects as at end of December 2014, the enterprises of 245 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 is expected to increase, including advertising, sales and marketing, creative industries (e.g. product image and design services), wholesale and retail, logistics, import and export trade, information technology, professional services (e.g. legal and accounting services), printing and publishing, and transportation, etc. The funded enterprises also planned to create 330 new jobs in Hong Kong during project implementation, and might provide 530 new jobs after project completion.

12. For the OSP, through implementing the projects, organisations can assist enterprises of the relevant sectors to enhance their competitiveness in the

Mainland market through developing brands, upgrading and restructuring business operations and promoting domestic sales. For the 44 approved projects as at the end of December 2014, various activities would be held in more than 15 Mainland cities, e.g. participating in and setting up “Hong Kong pavilions” at large-scale exhibitions to showcase Hong Kong brands; organising roadshows; collaborating with retail networks in the Mainland to promote the products and services of Hong Kong enterprises, etc. Participating enterprises were generally satisfied with the effectiveness of and benefits brought about by the projects, and considered that the projects could enhance the brand image and competitiveness of their products or services in the Mainland market. Quite a number of enterprises also considered that the projects had enhanced their understanding of the market environment and regulations in the Mainland and assisted them in building up business networks in the Mainland, thereby boosting their confidence in exploring the domestic sales market.

Promotion and Publicity

13. 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 December 2014, the HKPC as the secretariat has processed 5 985 enquiries, and implemented the following major initiatives –

- (i) organising 43 and 4 seminars in Hong Kong and the Pearl River Delta Region respectively, which attracted 3 816 participants, to introduce the application criteria and procedures of the ESP and explain matters requiring attention in making applications;
- (ii) participating in 48 activities organised by various organisations and trade and industry associations to promote the BUD Fund;
- (iii) organising two symposia to invite funded enterprises to share with other enterprises their experiences in implementing the funded projects and the real benefits brought about by the projects to the development of their businesses and tips for successful applications, whilst the staff of the secretariat introduced cases of successful and unsuccessful applications;
- (iv) producing a short interview video on tips for successful applications and broadcasting it through the ESP website and social media;
- (v) uploading onto the ESP website important points to note in making applications and improving the application form by incorporating clearer guidelines to application;

- (vi) providing advice to enterprises on applications through meetings between the secretariat and representatives of enterprises. Enterprises can make meeting appointments online or through hotline; and
- (vii) introducing the ESP and matters requiring attention in making applications on radio using a story-telling approach.

14. 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 introduce successful applications), 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 with real-life examples, the secretariat is preparing a guidebook on the experiences of enterprises from various industries in implementing the 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.

15. For the OSP, TID has been maintaining close contact with the trade to promote and publicise the programme. Up to the end of December 2014, TID has processed more than 1 700 enquiries, and conducted over 160 meetings with trade and industry associations, professional bodies and research institutes. 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, 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. TID will continue to gauge the views of the trade through different channels, with a view to improving the implementation details of the OSP.

Advice Sought

16. Members are invited to note this paper.

Commerce and Economic Development Bureau
Trade and Industry Department
March 2015

**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 provider¹ to help develop the holistic business

¹ 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
- (iii) having completed at least five projects in branding, upgrading and restructuring and/or domestic sales.

plan mentioned above.

- The Government has established a Programme Management Committee (the PMC)² and an Inter-departmental Committee (the IDC)³ 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.
 - (ii) *The project should have good prospects of improving the competitive advantage of the applicant or its product/service in the Mainland:*

The above requirements would be subject to review and revision from time to time by the Programme Management Committee.

² 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.

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

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 organisations⁴ 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 implemented⁵, 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 (TID). The Government has established a separate vetting committee⁶ 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.
 - (iii) *Implementation:* Whether the implementation plan of the proposed project (including its implementation schedule, business and publicity

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

⁵ 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.

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

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, whether the project deliverables are necessary, and whether it will duplicate the work carried out by other organisations.