

Funding Schemes with HKPC as Secretariat to provide support for SMEs' growth

26 OCTOBER 2022

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In line with the China's 14th Five-Year Plan (2021-2025) specifically advocating the development of Innovation and Technology (hereafter "I&T"), the Hong Kong 2021 Policy Address focused on strengthening the growth of I&T. Especially on promoting "re-industrialization", the Hong Kong government has been actively providing essential support including infrastructure, talent, funding, technology, and R&D. The Hong Kong Productivity Council (hereinafter "HKPC"), the key driver of "Industry 4.0" and "Enterprise 4.0", is committed to contributing to the productivity improvement of companies in Hong Kong. HKPC also offers secretariat service for assisting some of the government funding schemes. In addition to stimulating re-industrialization, the funding schemes include support for overseas expansion and promotion of digital transformation, which can be utilised by Japanese companies. We will pick up some of the funding schemes that might be of interest to Japanese companies located in Hong Kong in this report.

BACKGROUND

HKPC is a statutory organisation established in 1967 to enhance productivity of Hong Kong enterprises. It has drawn up a game plan with six major development directions in the years ahead: "Re-industrialisation", "Intelligent Manufacturing", "Digitalisation & Cyber Security", "Smart & Green Living", "FutureSkills" and "SME & Start-up Support". Not only financial support, HKPC has been offering a wide range of assistance such as holding seminars and trainings, market index research, consultancy services to transform ideas into practice. In 2020, HKPC approved a total of approximately HK\$ 3.2 billion funding, of which over HK\$ 1 billion was disbursed¹.

INTRODUCTION TO GOVERNMENT FUNDING SCHEMES WITH HKPC AS SECRETARIAT

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

BUD fund was established to support business expansion in mainland China as well as overseas market of SMEs in Hong Kong. It actively supports enhancing competitiveness and business development overseas. When BUD fund was first implemented in 2012, the scope was limited to projects in mainland China with maximum funding amount of HK\$ 1.5 million². The scheme currently has been expanded to include 37 countries and regions that have concluded Free Trade Agreements (FTAs) or Investment Promotion and Protection Agreements (IPPAs) with Hong Kong. The cumulative funding ceiling has also been raised to HK\$ 6 million. By February 2021, 3,358 cases have been approved with subsidies worth approximately HK\$ 1.72 billion. The success rate was about 35%³.

¹ HKPC's Annual Report 2020-21

² For details, please refer to News Focus No.8 2018: <https://www.bk.mufg.jp/report/chi200402/NF2018vol10en.pdf>

³ For details, please refer to Legislative Council Questions 13 on March 24, 2021:
<https://www.info.gov.hk/gia/general/202103/24/P2021032400259.htm>

Details																													
Objective	<ul style="list-style-type: none"> To assist Hong Kong enterprises in exploring and developing in mainland China as well as the FTA and/or IPPA markets 																												
Eligibility	<ul style="list-style-type: none"> Non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) with substantive business operations in Hong Kong 																												
Scope	<ul style="list-style-type: none"> Projects that develop brands, upgrade and restructure business operations and promote sales <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #444; color: white; text-align: center;">Project Measures</th> <th style="background-color: #444; color: white; text-align: center;">Proportion of the Project Expenditure in % Cap (per project application)</th> </tr> </thead> <tbody> <tr> <td>Relevant operation cost for setting up a new business entity *Business registration/operating licence fees, rental/renovation expense, utility expenses etc.</td> <td style="text-align: center;"><20%</td> </tr> <tr> <td>Recruit additional manpower *Including recruitment of additional manpower who directly provide services to customers under the project</td> <td style="text-align: center;"><50%</td> </tr> <tr> <td>Procure additional machinery, equipment or moulding *Including machinery, equipment or moulding for the purpose of increasing production capacity</td> <td style="text-align: center;"><70%</td> </tr> <tr> <td>Produce sample / prototype</td> <td style="text-align: center;"><30%</td> </tr> <tr> <td>Advertisement</td> <td style="text-align: center;"><50%</td> </tr> <tr> <td>Exhibitions / promotional events (including virtual exhibition) and related transportation, traveling and accommodation expense</td> <td style="text-align: center;"><20%</td> </tr> <tr> <td>Design and produce of promotional materials</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Design and establish online sales platform</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Establish/ enhance company website</td> <td style="text-align: center;"><HK\$ 100,000</td> </tr> <tr> <td>Mobile Apps (for promotional purpose)</td> <td style="text-align: center;"><50%</td> </tr> <tr> <td>Testing and certification registration</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Cost for patent/trademark registration/copyright protection directly related to the project(s)</td> <td style="text-align: center;">Max. cumulative amount of HK\$ 0.6 million per enterprise</td> </tr> <tr> <td>External audit fee for auditing the approved project</td> <td style="text-align: center;">Max. amount of HK\$ 10,000 per audit fully reimbursable</td> </tr> </tbody> </table>	Project Measures	Proportion of the Project Expenditure in % Cap (per project application)	Relevant operation cost for setting up a new business entity *Business registration/operating licence fees, rental/renovation expense, utility expenses etc.	<20%	Recruit additional manpower *Including recruitment of additional manpower who directly provide services to customers under the project	<50%	Procure additional machinery, equipment or moulding *Including machinery, equipment or moulding for the purpose of increasing production capacity	<70%	Produce sample / prototype	<30%	Advertisement	<50%	Exhibitions / promotional events (including virtual exhibition) and related transportation, traveling and accommodation expense	<20%	Design and produce of promotional materials	—	Design and establish online sales platform	—	Establish/ enhance company website	<HK\$ 100,000	Mobile Apps (for promotional purpose)	<50%	Testing and certification registration	—	Cost for patent/trademark registration/copyright protection directly related to the project(s)	Max. cumulative amount of HK\$ 0.6 million per enterprise	External audit fee for auditing the approved project	Max. amount of HK\$ 10,000 per audit fully reimbursable
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Geographical Coverage	<ul style="list-style-type: none"> Mainland China The 10 member states of ASEAN Other Asia countries/Areas: Japan, Republic of Korea, Kuwait, Macao and the United Arab Emirates Europe: Austria, Belgo-Luxembourg Economic Union, Denmark, the four member states of the European Free Trade Association (i.e., Iceland, Liechtenstein, Norway and Switzerland), Finland, France, Georgia, Germany, Italy, the Netherlands, Sweden, and the United Kingdom Americas and Oceania: Australia, Canada, Chile, Mexico and New Zealand 																												
Funding Amount and Principles	<ul style="list-style-type: none"> Funding ratio on a 1 (Government): 1 (Applicant) matching basis, i.e., the enterprise must contribute no less than 50% of the total approved project cost in cash Funding ceiling for each approved project is HK\$ 1,000,000 The total cumulative funding ceiling per enterprise is HK\$ 6,000,000 for 60 projects at maximum 																												
Application period	<ul style="list-style-type: none"> All year round 																												

Project period	<ul style="list-style-type: none"> ▪ Within 24 months
Vetting Criteria	<p>The project should...</p> <ul style="list-style-type: none"> ▪ lead to immediate or long-term business development ▪ have good prospects of improving the competitive advantage ▪ concrete deliverables to facilitate progress monitoring and evaluation of project outcome ▪ include solid actions for developing business ▪ have a reasonable budget with itemised cost breakdown and detailed justifications of costs and expenses
Successful cases	<ul style="list-style-type: none"> ▪ Pat Chun International Limited (Retailer & Manufacturer of brewed oriental sauces and condiment): The costs for hiring, sales activities market expansion and promotions in China ▪ Chocolate Rain Jewellery & Design Company Limited (Creative Industry & Retailer): Website enhancement fee, copyright registration fee for overseas markets and advertisement costs in Singapore ▪ Kwok's Pak Lee Company Limited (Wedding photography industry): The hiring costs and expenses for exhibitions, commercials and other promotional activities in Malaysia

II. Technology Voucher Programme (TVP)

In order to facilitate digital transformation, TVP was established in November 2016 to subsidise part of the costs required in the process. It was a pilot scheme limited to 3 years initially, with funding ratio of 2 (government): 1 (enterprise) and funding ceiling amount of HK\$ 200,000. The funding ratio is now raised to a 3 (government): 1 (enterprise) ratio, funding ceiling up to HK\$ 600,000 as a regular programme. As of the end of April 2022, approximately 12,000 projects have been approved and subsidies have reached about HK\$ 1.9 billion⁴.

Details	
Objective	<ul style="list-style-type: none"> ▪ To support local enterprises in using technological services and solutions to improve productivity
Eligibility	<ul style="list-style-type: none"> ▪ Enterprises must meet all below requirements: <ol style="list-style-type: none"> a) Enterprises that fall under any of the following <ol style="list-style-type: none"> i. Registered in Hong Kong under the Business Registration Ordinance (Cap. 310) ii. Incorporated and registered in Hong Kong under the Companies Ordinance (Cap. 622) iii. Established in Hong Kong by relevant ordinances as statutory bodies b) Not a listed company in Hong Kong, and not a government subvented organisation or subsidiary of any government subvented organisation c) With substantive business operation in Hong Kong which is related to the project under application at the time of application
Scope	<ul style="list-style-type: none"> ▪ Technology Consultancy ▪ Customised equipment/hardware, software and technological services or solutions ▪ Auditing fee
Funding Amount and Principles	<ul style="list-style-type: none"> ▪ Funding ratio on a 3 (Government): 1 (Applicant) matching basis, i.e., the enterprise must contribute no less than 25% of the total approved project cost in cash ▪ The lower amount of below: <ol style="list-style-type: none"> i. Three-fourths of the total approved project cost ii. HK\$ 600,000 (Cumulative ceiling: HKD\$600,000 for a maximum of six projects)

⁴ Statistics of Approved Projects on website of Innovation and Technology Commission: <https://www.itf.gov.hk/tc/itf-statistics/index-1.html>

Application period	<ul style="list-style-type: none"> All year round
Project period	<ul style="list-style-type: none"> Within 12 months
Vetting Criteria	<p>The project should...</p> <ul style="list-style-type: none"> Be relevant to the applicant's business Have a reasonable budget Have reasonable implementation details Provide adverse record of the technology service provider(s)
Successful cases	<ul style="list-style-type: none"> Trading company: add warehouse management function to existing resource system Retailer: Develop EC platforms, APPs, POS system

III. Re-industrialisation Funding Scheme (RFS)

Launched in July 2020, the HK\$ 2 billion RFS aims to subsidise new smart production lines established in Hong Kong, in order to promote "Made in Hong Kong" brand and push for smart manufacturing in Hong Kong. As of April 2022, 28 out of 33 applications were supported and about HK\$ 120 million of subsidies have been granted⁵.

Details	
Objective	<ul style="list-style-type: none"> To provide consulting services and financial assistance for manufacturers setting up new smart production lines in Hong Kong
Eligibility	<ul style="list-style-type: none"> Incorporated and registered in Hong Kong under the Companies Ordinance (Cap. 622) The new smart production lines can be set up in or outside the industrial estates of the Hong Kong Science and Technology Parks Corporation⁶ in Hong Kong
Scope	<ul style="list-style-type: none"> Expenses directly related to the establishment of the new production line in Hong Kong, including the costs of procurement, installation and commissioning of the machinery/equipment/apparatus, fees for engaging technical consultant(s) for the design and setting up of the production line concerned, relevant testing and staff training, patent registration fee, external audit fee etc ✗General operating expenses cannot be funded (e.g.: factory/office wages, raw material costs)
Funding Amount and Principles	<ul style="list-style-type: none"> Funding ratio on a 1 (Government): 2 (Applicant) matching basis, i.e., the enterprise must contribute no less than two-thirds of the total approved project cost in cash The lower amount of below: <ul style="list-style-type: none"> i. One-third of the total approved project cost ii. HK\$ 15 million
Application period	<ul style="list-style-type: none"> All year round
Project period	<ul style="list-style-type: none"> Within 24 months
Vetting Criteria	<ul style="list-style-type: none"> 35%: To fulfil the "smart manufacturing" criteria 20%: A reasonable budget with itemised cost breakdown and detailed justifications of costs and expenses 15%: A realistic and reasonable implementation plan 15%: The technical, financial and management capabilities and business background 15%: To generate economic value-added for Hong Kong

⁵ For details, please refer to Press Release on April 21, 2022: <https://www.info.gov.hk/gia/general/202204/21/P2022042100215.htm>

⁶ Hong Kong Science and Technology Parks Corporation (HKSTP) is a research and development base to foster and gather technology start-ups and companies by providing financial support, network, research equipment etc.

Successful cases	<ul style="list-style-type: none"> ▪ NiRoTech Limited (Manufacturer of intelligent security control devices): Integrating technologies such as IoT, A.I., big data and intelligent robots to develop “OWL” (intelligent production line). The production capacity has been increased by 1.5 times and the land required for operations has been reduced by half ▪ Nissin Foods Company Limited (Food Manufacturer): Through adoption of automation, sensors, robotics and real-time monitoring technology, a new smart production line was set up to fully automate the production of instant noodle products. Maximum funding of HKD 15 million was granted successfully.⁷
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COMMENTS

The above funding schemes are available for most Japanese enterprises located in Hong Kong, as long as they are with substantive business operation in Hong Kong and are registered under the Inland Revenue Department and Companies Registry. For instance, BUD fund can be used for marketing and brand building. Regardless of whether the approved projects ultimately achieve the goals, examination is done separately for each project based on its plans and expected outcomes, with a subsidy up to HK\$ 6 million for up to 60 projects. Besides, non-manufacturing companies can consider applying TVP to solve labour shortages and improve operational efficiencies with the latest IT tools. Regarding manufacturers, local factories can make use of RFS to build new intelligent production lines, or just to convert some existing parts to fulfil concept of “smart manufacturing”.

Moreover, there are many other government subsidies available (see the appendix below). HKPC started operating a dedicated “SME Reachout team” from 1st Jan 2020 to encourage better utilisation of government resources. On top of offering matching services that introduce more than 40 funding schemes that meet the needs of SMEs, the team also provides advice on application procedures and documentations to shorten preparation time and increase application success rates.

As Hong Kong has been actively promoting re-industrialization and digital transformation, the above-mentioned funding schemes can boost motivation for business which are suffering from lack of funds. On the other hand, according to the “Northern Metropolis Development Strategy” which was announced last year, a huge area of land is allocated for the I&T development. We can also expect new introduction and further expansion of support measures for I&T promotion in the future. We will keep an eye closely on related policy trend and update the development accordingly.

⁷ For details, please refer to Press Release on November 9, 2021:
<https://www.info.gov.hk/gia/general/202111/09/P2021110800672.htm>

APPENDIX: OTHER GOVERNMENT FUNDING SCHEMES (EXTRACT)

Scheme	Objectives	Target Recipients	Max. Funding Amt.
Enterprise Support Scheme	Support local companies to conduct in-house R&D work with a view to encouraging the private sector to invest in R&D	Locally incorporated and registered companies	HK\$ 10 million per project (HK\$ 2.8 million for SME)
SME Financing Guarantee Scheme	Help SMEs and non-listed enterprises obtain financing from participating lenders for meeting business needs	Enterprises registered in Hong Kong (except listed companies, lending institutions and affiliates of lending institutions)	HK\$ 18 million (depend on programmes)
SME Export Marketing Fund	Encourage SMEs to expand markets outside Hong Kong by providing financial assistance to SMEs for participation in export promotion activities	Non-listed Hong Kong enterprises with substantive business operation in Hong Kong	HK\$ 100,000 per project / HK\$ 800,000 per enterprise
Cyberport Incubation Programme	Support entrepreneurs and start-ups with resources that aim to accelerate their growth	Locally registered digital tech company limited by shares and the date of incorporation must be less than 7 years upon application deadline	HK\$ 500,000
Cleaner Production Partnership Programme	Encourage and facilitate Hong Kong-owned factories in Hong Kong/Guangdong Province to adopt cleaner production technologies and practices	Enterprises registered in Hong Kong and owning and operating a factory in Hong Kong/ Guangdong, and non-profit distributing organisations operating as trade and industrial organisations in Hong Kong	50% or 90% of the total project expenditure (depend on programmes)
Pilot Subsidy Scheme for Third-party Logistics Service Providers	Encourage the adoption of technology by the logistics sector for enhancing efficiency and productivity by providing financial assistance to third-party logistics service providers	Non-listed enterprises registered in Hong Kong with substantive business operations in providing third-party logistics services related to either inbound or outbound goods	HK\$ 1 million per enterprise
Recycling Fund	Provide matching funds for the projects to promote the recovery and recycling of waste by facilitating the upgrading of the operational capabilities and efficiency of the recycling industry for sustainable development	Enterprises incorporated and registered in Hong Kong and involved in recycling related operation for at least 1 year	HK\$ 15 million per enterprise
Patent Application Grant	Encourage local companies and inventors to capitalise their intellectual work through patent registration	Locally incorporated companies, Hong Kong permanent residents or Hong Kong residents permitted to remain in Hong Kong for not less than 7 years which/who have never owned any patents nor received funding from PAG before	HK\$ 250,000 per project

	Publish date	Title
No.2 2022	2022/04/29	China to Facilitate New Forms of Offshore International Trade
No.1 2022	2022/3/15	Higher Level of Opening Up for Cross-border Trade and Investment in Selected Areas in China

- Please refer to the below links for previous News Focus:

(English) https://www.bk.mufg.jp/report/chi200402/Archive_ENG.pdf

(Japanese) https://www.bk.mufg.jp/report/chi200402/Archive_JP.pdf

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