

DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES

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1. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Government set up a Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) in June 2012 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. In the period from August 2018 to July 2021, the Government extended the geographical coverage of BUD Fund to also include the Association of Southeast Asian Nations markets, and other economies with which Hong Kong had signed Free Trade Agreements and/or Investment Promotion and Protection Agreements. Up to 28 February 2025, the total approved funding commitment of BUD Fund was \$7 billion. It was announced in the 2024 Policy Address and the 2025-26 Budget that the Government would further inject \$1 billion and \$0.75 billion respectively into BUD Fund (pending the approval by the Legislative Council as at 28 February 2025). Up to December 2024, 9,830 BUD Fund applications had been approved, involving total approved funding amount of \$6.05 billion with about 6,500 beneficiary enterprises. There are three types of applications under BUD Fund, i.e. general application, “Easy BUD” application and “E-commerce Easy” application. The Commerce and Economic Development Bureau and the Trade and Industry Department (TID) are responsible for administering BUD Fund. Since the launch of BUD Fund, the Government has engaged the Hong Kong Productivity Council (HKPC) as the implementation partner and the secretariat of BUD Fund (hereinafter referred to as BUD Fund Secretariat). The Audit Commission (Audit) has recently conducted a review of BUD Fund.

Processing of applications

2. *Scope for expediting receipt of all necessary information and clarifications for processing of applications.* Applications received are initially assessed by BUD Fund Secretariat. If further clarification and additional information are required, BUD Fund Secretariat will notify the applicants by email within four weeks from the receipt of application. The applicants are required to provide

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such clarification or information within 14 days. Audit analysed the 7,571 general applications received in the period from January 2021 to December 2024, 789 “Easy BUD” applications received in the period from June 2023 to December 2024, and 25 “E-commerce Easy” applications received in the period from July to December 2024 that were approved/approved with conditions or rejected as at 31 December 2024. Audit found that in some cases, long time had been taken to receive all the necessary information and clarifications from the applicants. The time taken from the date of receiving the applications to the date of receiving all the necessary information and clarifications from the applicants ranged from 2 to 446 days (averaging 120 days) for general applications, 2 to 153 days (averaging 41 days) for “Easy BUD” applications, and 13 to 81 days (averaging 39 days) for “E-commerce Easy” applications (paras. 2.3, 2.6 to 2.8).

3. *Need to identify ways to reduce number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible.* After the completion of initial assessment, the applications will be circulated to the Inter-departmental Committee (IDC) for further assessment. Applications endorsed by IDC are then submitted to the Programme Management Committee (PMC) for final assessment. PMC will decide whether the applications would be approved/approved with conditions or rejected. Audit analysed the 18,585 general applications (received and processed from January 2018 to December 2024), the 1,516 “Easy BUD” applications (received and processed from June 2023 to December 2024) and the 75 “E-commerce Easy” applications (received and processed from July to December 2024). Audit found that 9,956 (53%) general applications, 954 (63%) “Easy BUD” applications, and 60 (80%) “E-commerce Easy” applications were rejected, withdrawn or could not be processed further. While the Government has introduced a series of measures to facilitate enterprises in submitting applications for BUD Fund, there were still a considerable number of rejected applications, withdrawn applications, or applications which could not be processed further due to various reasons including insufficient information and little understanding of application requirements (paras. 2.3, 2.11 to 2.13).

4. *Long time taken to sign funding agreements after issuance of result notification letters.* BUD Fund Secretariat’s Operation Manual stipulates that in general, the funding agreements between BUD Fund Secretariat and the grantees should be signed within six months from the date of issuance of result notification letters. Audit analysed the time elapsed from the date of issuance of result notification letters to the date of signing of funding agreements for 5,481 general applications approved in the period from January 2021 to December 2024 and 515 “Easy BUD”

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applications approved in the period from June 2023 to December 2024 with result notification letters issued. Audit found that: (a) for 64 (1%) of the 5,122 general applications and 5 (1%) of the 485 “Easy BUD” applications with funding agreements signed, the funding agreements were signed more than 6 months after issuance of result notification letters. The delays ranged from 1 day to 1.2 years (averaging 2.8 months) for general applications and 10 days to 3.7 months (averaging 2 months) for “Easy BUD” applications respectively; and (b) as at 31 December 2024, the funding agreements for 359 approved general applications were not yet signed. For 20 (6%) of the 359 general applications, the time elapsed from the date of issuance of result notification letters was more than 6 months, ranging from 6.2 months to 2.3 years (averaging 1 year) (paras. 2.16 and 2.17).

5. ***Need to enhance monitoring of applications approved with conditions.*** In some cases, an application may be approved with conditions (i.e. an approval-in-principle is given whereby the applicant is required to fulfil one or more conditions set by PMC within a required timeframe). As at 31 December 2024, 600 applications approved with conditions were still pending the applicants to fulfil the stipulated conditions. Audit analysed 124 of the 600 applications where the approvals with conditions had been given more than 6 months ago as at 31 December 2024 and found that: (a) for 75 (60%) applications where the required timeframes for fulfilling the conditions were set at 4 or 6 months from the dates of issuance of result notification letters, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5 days to 10.8 months (averaging 3.2 months). For the remaining 49 (40%) applications where the required timeframes for fulfilling the conditions were set at 14 days from the dates of issuance of result notification letters, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5.7 to 13.3 months (averaging 7.5 months); (b) there were no guidelines on the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes. No timeframe was set for lapsing the approvals-in-principle for applicants who did not fulfil the stipulated conditions within the required timeframes; and (c) the required timeframes for fulfilling the stipulated conditions by applicants and the actual dates for fulfilling the stipulated conditions by applicants were not recorded in BUD Fund’s computer system. As such, there was no readily available management information on the timeliness of fulfilling the stipulated conditions by the applicants for performance monitoring (paras. 2.20 and 2.21).

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Monitoring of approved projects

6. *Need to ensure timely submission of final reports and progress reports by grantees.* To facilitate the monitoring and evaluation of approved projects, the grantees are required to submit reports to BUD Fund Secretariat for review. The reports will then be submitted to IDC for assessment and thereafter to PMC for consideration and acceptance (para. 3.2). Audit noted the following issues:

- (a) *Delays in submission of final reports and progress reports by grantees.* In 2024, 727 final reports and 17 progress reports submitted by the grantees for projects under general applications, and 146 final reports submitted by the grantees for projects under “Easy BUD” applications were accepted by PMC. Audit reviewed the submission of these reports by the grantees and found that: (i) 333 (46%) of the 727 final reports and 8 (47%) of the 17 progress reports for projects under general applications were submitted late. The delays ranged from 1 to 806 days (averaging 104 days) for final reports and 9 to 519 days (averaging 125 days) for progress reports; and (ii) 37 (25%) of the 146 final reports for projects under “Easy BUD” applications were submitted late. The delays ranged from 1 to 135 days (averaging 43 days) (para. 3.3); and
- (b) *Overdue final reports and progress reports.* As at 31 December 2024, 341 final reports and 16 progress reports for projects under general applications, and 32 final reports for projects under “Easy BUD” applications were overdue for submission. Audit analysed the overdue period of these reports and found that, as at 31 December 2024: (i) for the 341 overdue final reports and the 16 overdue progress reports for projects under general applications, the overdue period ranged from 1 to 642 days (averaging 100 days) for final reports and 1 to 551 days (averaging 157 days) for progress reports; and (ii) for the 32 overdue final reports for projects under “Easy BUD” applications, the overdue period ranged from 1 to 215 days (averaging 73 days) (para. 3.4).

7. *Need to expedite the processing of final reports and progress reports.* As at 31 December 2024, 1,937 final reports and 102 progress reports for projects under general applications, and 75 final reports for projects under “Easy BUD” applications were still under processing. Audit analysed the time elapsed from the dates of the receipt of the reports. Audit found that, up to 31 December 2024: (a) for the 1,937 final reports and 102 progress reports for projects under general applications,

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the time elapsed from the dates of receipt ranged from 1 day to 3.5 years (averaging 300 days) for final reports and 1 day to 3.3 years (averaging 457 days) for progress reports. 586 (30%) of the 1,937 final reports and 58 (57%) of the 102 progress reports had been received for more than 1 year; and (b) for the 75 final reports for projects under “Easy BUD” applications, the time elapsed from the dates of receipt ranged from 1 to 157 days (averaging 42 days). 8 (11%) of the 75 final reports had been received for more than 90 days (para. 3.8).

8. *Need to ensure that on-site checks are conducted within target timeframes.* BUD Fund Secretariat conducts on-site checks on selected projects to verify the project progress and results. The Enhanced Guidelines on On-site Check Mechanism stipulate the criteria for nominating projects for on-site checks and the target timeframes for conducting the checks. Audit reviewed the on-site checks conducted on 20 projects in the period from 2022-23 to 2024-25 (up to September 2024) and found that for 8 (40%) projects, the on-site checks were not conducted within the target timeframes: (a) for 6 (30%) projects, the on-site checks were conducted after the specified timeframe. The delays ranged from 1 day to 16.4 months (averaging 8 months); and (b) for 2 (10%) projects, the on-site checks were conducted before the specified timeframe. The on-site checks were conducted 1 and 2 months before the specified timeframe respectively (paras. 3.13, 3.21 and 3.22).

9. *Need to refine guidelines on on-site checks for “Easy BUD” and “E-commerce Easy” projects.* Audit noted that there were no specific guidelines relating to on-site checks for “Easy BUD” and “E-commerce Easy” projects. For “Easy BUD” projects, according to the minutes of PMC meeting held in December 2022, no on-site check would normally be conducted unless suspicious elements were found. However, the suspicious elements and the circumstances which would warrant the conduct of on-site checks were not specified. For “E-commerce Easy” projects, according to TID, the general parameters of post-project follow-up follow those of the projects under general applications. However, Audit found that the selection criteria and target number of on-site checks for “E-commerce Easy” projects had not been specified (para. 3.29).

10. *Significant increase in amount of residual funds to be recouped from grantees.* For approved projects under general applications and “E-commerce Easy” applications, the grantee can choose to receive an initial payment for its approved project. There are circumstances where, upon the termination or the completion of

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project, the amount of the recognisable funding amount endorsed by PMC is smaller than the amount of initial payment disbursed. Upon the termination or the completion of the project, whichever is earlier, the grantee shall return to the Government via BUD Fund Secretariat any residual funds before the date prescribed by PMC. Audit reviewed the recoupment of residual funds from grantees of terminated projects and completed projects in the period from 2019-20 to 2024-25 (up to 31 December 2024) and found that as at 31 December 2024: (a) the amount of residual funds to be recouped from the grantees of terminated projects was \$73.7 million, which increased significantly by \$72.9 million from \$0.8 million as at 31 March 2020; and (b) the amount of residual funds to be recouped from the grantees of completed projects was \$14.3 million, which increased significantly by \$14.2 million from \$0.1 million as at 31 March 2020 (paras. 3.33 and 3.34).

11. ***Long outstanding residual funds to be recouped from grantees.*** As at 31 December 2024, the amount of residual funds to be recouped from grantees of terminated projects and completed projects was \$73.7 million (involving 150 projects) and \$14.3 million (involving 63 projects) respectively. Audit analysed the recoupment of the residual funds from the grantees of the 150 terminated projects and the 63 completed projects. Audit noted that as at 31 December 2024: (a) for the 150 terminated projects, the time elapsed from the date of project termination ranged from 4 days to 9 years (averaging 1 year). For 50 (33%) projects (involving total residual funds of \$21.8 million or 30% of the total outstanding amount), the time elapsed from the date of project termination was more than 1 year; and (b) for the 63 completed projects, the time elapsed from the date of PMC endorsement of final reports and final audited accounts (i.e. when the amount of residual funds could be determined) ranged from 12 days to 2.4 years (averaging 193 days). For 14 (22%) projects (involving total residual funds of \$3.7 million or 26% of the total outstanding amount), the time elapsed from the date of PMC's endorsement of final reports and final audited accounts was more than 1 year (paras. 3.36 and 3.37).

Other related issues

12. ***Service agreements with BUD Fund Secretariat not updated in a timely manner.*** Since June 2012, HKPC has been engaged as the implementation partner and the secretariat of BUD Fund. The service agreement signed between the Government and HKPC in June 2012 had been updated five times in June 2017, October 2018, September 2020, March 2022 and March 2024 respectively. Audit examined four recent service agreements signed between the Government and HKPC

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and found that all the agreements were signed retrospectively after the effective dates of the agreements. The four agreements were signed 3 to 9 months (averaging 7 months) after the effective dates of the respective agreements (paras. 4.2 and 4.3).

13. ***Delays in submission and approval of Annual Implementation Plans.*** BUD Fund Secretariat is required to produce, for each financial year, an Annual Implementation Plan for acceptance by the Government and PMC. Audit reviewed the records of submissions and approvals of Annual Implementation Plans for the financial years 2019-20 to 2024-25 and found that: (a) for all the 6 years, there were delays in the submissions of Annual Implementation Plans by BUD Fund Secretariat. The delays ranged from 86 to 115 days (averaging 100 days); (b) for 3 (50%) of the 6 years, the Annual Implementation Plans were submitted to PMC after the commencement of the respective financial years. The Plans for these 3 years were submitted 21 to 23 days (averaging 22 days) after the commencement of the respective financial years; and (c) for the recent 4 (67%) of the 6 years, TID indicated its approvals in writing 8 to 14 weeks (averaging 11 weeks) after PMC had reached a conclusion. For the first 2 (33%) years, there was no documentary evidence showing TID's indication of approvals in writing for the Annual Implementation Plans (paras. 4.6 and 4.8).

14. ***Delays in submission of Annual Reports and audited accounts by BUD Fund Secretariat.*** According to the service agreements signed between the Government and HKPC, BUD Fund Secretariat should produce to PMC an Annual Report and audited accounts of BUD Fund within three months after the end of each financial year. Audit examined the submissions of 5 sets of Annual Reports and audited accounts for the financial years from 2019-20 to 2023-24 and found that there were delays in the submissions of 4 (80%) sets of Annual Reports and audited accounts. The delays ranged from 8 to 90 days (averaging 36 days) for Annual Reports and 9 to 92 days (averaging 38 days) for audited accounts (paras. 4.10 and 4.11).

15. ***Need to appoint more young people to PMC.*** In October 2017, the Government announced that it would appoint more young people to various Government boards and committees with the aim of increasing the overall ratio of young members (i.e. persons who are aged between 18 and 35) to 15% by June 2022. Audit reviewed the appointments of PMC members for the three terms from July 2020 to June 2022, July 2022 to June 2024 and July 2024 to June 2026 respectively. Audit found that the number of young members appointed were 2, 2 and 1 for the three terms

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respectively. Of the total number of non-official PMC members appointed, the overall ratios of young members were only 13 %, 13 % and 8 % for the three terms respectively (paras. 4.21 and 4.22).

16. *Need to improve first-tier declarations of interests.* PMC adopts a two-tier reporting system for members to declare matters which may give rise to a conflict of interests. Audit examined the first-tier declarations made in the period from July 2020 to December 2024 and found that all the 14 declarations of interests on first appointment were made after the dates of first appointment of the members concerned. The declarations were made 1 to 21 days (averaging 6 days) after the first appointment of the members concerned (paras. 4.32 and 4.33).

Audit recommendations

17. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

Processing of applications

- (a) **ascertain the reasons for the long time taken to receive all necessary information and clarifications for some applications for grant (para. 2.14(a));**
- (b) **take measures to expedite the receipt of all necessary information and clarifications from the applicants for processing applications for grant (para. 2.14(b));**
- (c) **identify ways to reduce the number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible (para. 2.14(c));**
- (d) **take measures to ensure that the funding agreements are signed within the timeframe specified in BUD Fund Secretariat's Operation Manual (para. 2.18);**

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- (e) **take measures to ensure that the applicants fulfil the conditions stipulated in the approvals with conditions within the required timeframes (para. 2.23(a));**
- (f) **enhance guidelines on handling applications approved with conditions, including:**
 - (i) **the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes (para. 2.23(b)(i)); and**
 - (ii) **setting timeframe for lapsing the approvals-in-principle for the applicants who have not fulfilled the stipulated conditions within the required timeframes (para. 2.23(b)(ii));**
- (g) **take measures to ensure that the required timeframes and actual timeframes for fulfilling conditions stipulated in approvals with conditions by the applicants are recorded in BUD Fund's computer system and compile management information on the timeliness of fulfilling stipulated conditions by the applicants for performance monitoring (para. 2.23(c));**

Monitoring of approved projects

- (h) **take measures to ensure the timely submission of final reports and progress reports by the grantees (para. 3.11(a));**
- (i) **urge the grantees to submit the overdue final reports and progress reports as early as possible (para. 3.11(b));**
- (j) **enhance measures to expedite the processing of the final reports and progress reports (para. 3.11(c));**
- (k) **take measures to ensure that on-site checks are conducted within the target timeframes stipulated in the Enhanced Guidelines on On-site Check Mechanism (para. 3.31(c));**

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- (l) **refine guidelines on on-site checks to include specific guidelines for “Easy BUD” and “E-commerce Easy” projects, including:**
 - (i) **specifying the suspicious elements and the circumstances which warrant the conduct of on-site checks for “Easy BUD” projects (para. 3.31(e)(i)); and**
 - (ii) **specifying the selection criteria and the target number of on-site checks for “E-commerce Easy” projects (para. 3.31(e)(ii));**
- (m) **ascertain the reasons for the significant increase in amount of residual funds to be recouped from grantees of terminated projects and completed projects (para. 3.43(a));**
- (n) **enhance the monitoring of the amount of residual funds to be recouped from grantees of terminated projects and completed projects (para. 3.43(b));**
- (o) **closely monitor the recoupment of residual funds from grantees of terminated and completed projects, in particular, those from the long outstanding cases (para. 3.43(c));**
- (p) **step up measures to recoup residual funds from grantees of terminated and completed projects as soon as possible (para. 3.43(d));**

Other related issues

- (q) **take measures to ensure that BUD Fund Secretariat submits the Annual Implementation Plans within the stipulated timeframe (para. 4.17(a));**
- (r) **take measures to ensure that Annual Reports and audited accounts of BUD Fund are submitted by BUD Fund Secretariat within the stipulated timeframe (para. 4.17(b)); and**
- (s) **take measures to ensure that first-tier declarations of interests are made by PMC members in a timely manner (para. 4.36(c)).**

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18. Audit has also *recommended* that the Director-General of Trade and Industry should take measures to:

- (a) ensure that the service agreements between the Government and BUD Fund Secretariat are updated in a timely manner (para. 4.16(a)); and
- (b) ensure that Annual Implementation Plans are approved by TID within the stipulated timeframe and such approvals are properly documented (para. 4.16(b)).

19. Audit has also *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should step up efforts to appoint more young people to PMC (para. 4.35(a)).

Response from the Government

20. The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations.

