

**For discussion
on 12 June 2023**

**LEGISLATIVE COUNCIL PANEL ON
INFORMATION TECHNOLOGY AND BROADCASTING**

**Funding proposals for supporting the
development of start-ups and promotion of digital transformation**

Purpose

This paper seeks Members' views on the funding applications for the implementation of the Incubation Programme for Smart Living Start-ups ("Incubation Programme") and the Digital Transformation Support Pilot Programme ("Pilot Programme").

Background

2. Sustainable development of the innovation and technology ("I&T") is a key strategy to foster a more vibrant and diversified economy. The 14th Five-Year Plan also supports Hong Kong's development into an international I&T hub. The Hong Kong Innovation and Technology Development Blueprint ("the I&T Blueprint") promulgated in December 2022 formulates a clear development path and systematic strategic plan for Hong Kong's I&T development over the next five to 10 years, charting Hong Kong in full steam towards the vision of an international I&T hub. Among other things, the I&T Blueprint sets out four broad development directions, which include enhancing the I&T ecosystem and promoting digital economy development.

3. As the flagship in Hong Kong's information and communications technology ("ICT") industry, Cyberport has over the years implemented public mission programmes, through provision of financial and professional support, to nurture start-ups, inspire and motivate young people to pursue a career in the I&T industry, and create business opportunities, thereby fostering the development of ICT in Hong Kong. Building upon the I&T Blueprint, the Financial Secretary announced in the 2023-24 Budget an array of measures to promote I&T development, which include earmarking \$265 million and \$500 million respectively for Cyberport to take forward a dedicated incubation programme for smart living start-ups and a pilot programme to assist small and medium

enterprises (“SMEs”) in applying ready-to-use basic digital solutions to facilitate digital transformation.

(I) Incubation Programme for Smart Living Start-ups

4. The current-term Government is committed to accelerating the pace of smart city development in Hong Kong and improving citizen’s quality of life. Measures include enhancing I&T application to promote smart living. In order to drive smart city development, Cyberport plans to roll out the Incubation Programme to strengthen the cultivation of smart living start-ups, by providing targeted support for start-ups engaged in related solutions and services and fueling their innovation of more smart living solutions, thereby helping people to tackle daily life issues through adoption of I&T. We propose a provision of \$265 million for Cyberport to take forward the programme. Details of the Incubation Programme are set out in paragraphs 5 to 8 below.

Beneficiaries

5. Start-ups engaged in smart living solutions and services, which include but not limited to educational technology, environmental technology, healthcare technology, smart mobility, etc., can apply for the Incubation Programme. Cyberport expects that around 90 eligible start-ups will benefit from the Incubation Programme in each of the next five years.

Funding and Support

6. The maximum amount of funding for each eligible smart living start-up under the Incubation Programme is \$500,000. In addition to financial subsidy, Cyberport will also provide professional services support, including mentorship by experienced smart living entrepreneurs and senior executives to provide targeted guidance to start-ups; enhanced professional services and marketing support such as participation in local or regional conferences or events to assist start-ups in exploring investment, business and collaboration opportunities; and testing of smart living solutions and business matching, etc. Cyberport will also provide support related to digital technology in order to lower start-ups’ expenses on research and development and operation.

Application Procedures

7. Processing of the applications under the Incubation Programme, from initial screening, assessment to final approval, will be handled in accordance with Cyberport’s established assessment procedures for incubatees. The assessment

will be conducted by an external independent vetting team. Applications that have passed the independent assessment will then be recommended to the Entrepreneurship Committee under the Cyberport’s Board of Directors for final approval. All projects applying for funding under the Incubation Programme must fall under the umbrella of smart living digital technology, and have not been/ will not be concurrently receiving similar funding support, including the existing incubation programme of Cyberport.

Funding Disbursement

8. Each funded project or incubatee under the Incubation Programme will set project milestones over 24 months based on its proposal, development plan and project progress for Cyberport’s review. The reviewed project milestones will serve as indicators for disbursement of the financial assistance in the future. Cyberport will verify and make reference to the supporting documents submitted by the relevant projects to determine whether the milestones have been achieved before disbursing the relevant financial assistance.

(II) Digital Transformation Support Pilot Programme

9. Constituting 98% of the local business establishment, SMEs are the backbone of Hong Kong’s economy. Digitalisation is an inevitable trend for Hong Kong’s economy to move towards high-quality development. To this end, the Government is assisting SMEs in Hong Kong in applying technology and improving their productivity through various financial and professional support measures. Last June, the Government also set up the Digital Economy Development Committee (“DEDC”) chaired by the Financial Secretary to promote digital transformation across different industries and expedite the development of digital economy.

10. To further expedite the digital transformation of SMEs, Cyberport will launch the Pilot Programme, under which subsidies will be provided on a one-to-one matching basis to assist SMEs in purchasing and applying ready-to-use basic digital solutions. The budget for the Pilot Programme is \$500 million. Details are set out under paragraphs 11 to 18 below.

Beneficiaries

11. To maximize the economic benefits of the Pilot Programme, we suggest designating the food and beverage (“F&B”) industry and the retail industry as the target industries under the Pilot Programme. In coming up with this suggestion,

we have consulted DEDC and taken into consideration various factors including the extent of digital transformation of different industries and their relevance to people’s livelihood. Accordingly, enterprise applicants for the Pilot Programme must belong to the two target industries, and must be registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operation in Hong Kong. They must not be listed companies, statutory bodies or non-governmental organisations subvented by public funding.

Funding Support

12. The Pilot Programme will operate on a one-to-one matching basis with funding support up to \$50,000¹ for each eligible enterprise. To benefit more SMEs, up to one project may be approved for each enterprise. We anticipate that at least 8 000 eligible SMEs can benefit from the Pilot Programme.

Solution Packages

13. With reference to the suggestions from the DEDC Sub-group and the industry on the current state of digital transformation of local enterprises, Cyberport’s initial recommendation is to offer an array of off-the-shelf hardware, software and subscription-based solutions² covering three categories (i.e. online promotion, point of sale and payment systems, and customer management and discount systems) (see **Annex**) on a pilot basis for selection by enterprise applicants in the F&B and retail industries.

14. Many SMEs have limited or no prior exposure to digital technology and, without appropriate support or guidance, they may encounter difficulties in choosing suitable digital solutions that fit their business needs. In this regard, Cyberport will set up a dedicated website for the Pilot Programme through which applicants can browse the solution packages pre-assessed by Cyberport.

15. Cyberport will also accept solution applications from digital technology solution providers (“solution providers”) through the dedicated website. Digital technology solutions belonging to the designated categories and meeting the specified requirements may be included under the Pilot Programme (“listing”). To ensure quality of the solutions, Cyberport will establish clear assessment criteria, including requiring solution providers to have

¹ In order to provide more choices for enterprise applicants, we allow solution providers to provide additional services or functions on top of the basic digital solution package of not more than \$100,000; the maximum amount of funding for each successful application will be 50% of the full digital solution package or \$50,000, whichever is lower.

² Up to two years of subscription period is allowed for subscription-based solutions.

substantial support service in Hong Kong, good track record and meeting other technical requirements relating to data interoperability and cybersecurity, etc. Cyberport will upload the detailed assessment criteria to the dedicated website, and require solution providers to provide documentary proof related to their technology, capability and experience, etc. for review. Information related to solutions approved by Cyberport will be published to the dedicated website for enterprise applicants' reference and selection.

Application Procedures

16. Prior to accepting applications from enterprises in the F&B and retail industries, Cyberport will first accept applications from solution providers to list their solutions. Eligible solutions will then be included under the Pilot Programme, and subsequently opened to enterprises in F&B and retail industries for application. To ease SMEs' participation in the Pilot Programme, Cyberport will strive to process applications under streamlined and user-friendly procedures. It will expedite assessment as soon as the application period ends. Cyberport anticipates that around six batches of funding applications could be processed, and will stipulate the application period and quota of applications for each batch. Applications from solution providers and enterprises will first be screened and vetted preliminarily by the Cyberport secretariat to ensure eligibility, and will then be submitted to an independent advisory panel for consideration. Members of the advisory panel will comprise representatives from the industries, professionals and the Government.

Funding Disbursement

17. To simplify the application process and reduce administrative burden of SMEs, Cyberport will disburse the funding support directly to the solution provider selected by the applicant. The funding support will be disbursed in instalments. Successful applicants must make a payment of no less than half of their approved project cost in cash, submit documentary proof to Cyberport and confirm receipt of the solution, upon which Cyberport will disburse half of the matching fund to the solution provider. The applicant is required to submit a final report to Cyberport 12 months after the approval of the application, including feedback on the solution. This will form the basis of the disbursement of the remaining payment by Cyberport to the solution provider. To effectively monitor the operation of the projects, Cyberport will conduct spot-checks to ensure proper use of the funded technology solutions.

Review

18. We will from time to time review the effectiveness and modus operandi (e.g. funding scope, amount and vetting procedures) of the implementation of the Pilot Programme and determine the way forward in due course.

Governance

19. Cyberport will take forward the Incubation Programme and Pilot Programme and will be responsible for processing applications, monitoring project progress, disbursing funding support, programme promotion and conducting spot-checks on approved applications. The Government will disburse funding to Cyberport according to the actual needs and progress of Cyberport in taking forward the Incubation Programme and Pilot Programme. Cyberport will open a designated bank account and keep separate books for the concerned funding. The Office of the Government Chief Information Officer and Cyberport will discuss the detailed management, operation, financial and supervisory arrangements.

20. Apart from monitoring the implementation of the Incubation Programme and Pilot Programme, the Government will continue to oversee the work of Cyberport through its Board of Directors and relevant committees. In addition, the Government will meet the Cyberport management regularly to review the overall operation of Cyberport and latest development of the above-mentioned programmes.

Financial implications

21. The breakdown of the estimated expenditure on the two above-mentioned programmes is set out below:

Incubation Programme

	Item	Estimated expenditure (\$ million)
(a)	Funding support	225
(b)	Administrative and manpower expenses	24
(c)	Associated expenses for providing targeted support for incubatees and promoting the Incubation Programme etc.	16
	Total	265

Pilot Programme

	Item	Estimated expenditure (\$ million)
(a)	Funding support	425
(b)	Administrative and manpower expenses	51
(c)	Promoting the Pilot Programme and providing guidance and support for enterprises on digital transformation	21
(d)	ICT facilities and other supporting facilities	3
	Total	500

Next Step

22. Members are invited to note and comment on the above proposals. Subject to Members' support, we plan to seek funding approval from the Finance Committee in Q3 2023.

**Innovation, Technology and Industry Bureau
Office of the Government Chief Information Officer
June 2023**

**Initial recommendations for
designated categories of digital technology solutions
supported by the Pilot Programme**

Name of category	Description
Online promotion	To establish company websites and social media pages for enterprises, or to help them promote their business through online search engines and social media.
Point of sale and payment system	To assist enterprises in automating their payment and calculation workflows, and support electronic payment to open up new payment channels. The systems may automatically generate reports through marketing data, allowing enterprises to analyse their business and providing a basis for making business decisions. In addition, systems of this category may also include in-store self-service sales solutions, such as self-ordering systems and vending machines etc.
Customer management and discount system	To allow enterprises to enhance interactions with existing and potential customers, and centrally store customer information and contact records. Systems of this category may support sales promotion activities such as electronic membership programmes and electronic coupons. The systems may also provide functions such as customer support, case management and knowledge base, and provide reports to allow enterprises to effectively view, analyse and manage sales activities, targets, potential customers and related follow-up work.