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HKIoD's Statement
ahead of
the Chief Executive's Policy Address
<u>scheduled to be delivered on 16 October 2024</u>

Two adult pandas have arrived in town, two cubs were born locally. This should bring more joy and smile among Hong Kong people, and this could be a sign for better things to come.

The road to economic recovery, however, is still rough. The Mainland economy has been dragged by its own issues. US-China relations add more uncertainty. Regional conflicts threatens to become global disturbance. Interest rates may begin to trend down, but observers are quick to remind us not to be too ahead of ourselves. A tornadic waterspout struck Hong Kong recently, a scene not seen before. Could this be a sign for more troubles ahead?

The economy needs a quick fix to steady the ship. The economy will need more so a deeper level transformation for long-term competitiveness. This is a dichotomy that should require innovative approaches to policy formulation. This should require more agility in policy implementation and adjustments to adapt to fast-changing needs.

Government budget is in deficit. A slow economy will mean less revenue to make up the gap. Yet we have to embark on major infrastructure projects to seek new growth. Costs of construction, labour and all, have been on the rise. Between this Policy Address and the next Budget, the Government will help assure Hong Kong people with firm measures to control costs and watch the spending.

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"Pandanomics"
We trust Hong Kong people to have the quick wit to turn the panda frenzy into business ideas that will in turn help retail, F&B, tourism and beyond. For the creative industries, we believe the better, longer-lasting outputs will be those which can successfully combine the notion of National Treasure and the unique strength and qualities that the SAR has.

Pandas are naturally found only in China. Hong Kong is now the one place with the most pandas outside the Mainland. Sichuan is the natural home of pandas. Chengdu and surroundings have plenty to offer in history and culture. The recent exhibition of Jinsha artifacts drew many visitors. The Sichuan Basin is one tourist destination with great scenery. Conceivably, there can be more exhibitions in local venues of items from Chengdu/Sichuan museum collections. Conceivably, there can be experience centres in Sichuan and Hong Kong, to cross promote tourism. Pandanomics starts with pandas, but can be more than pandas.

Hong Kong uniqueness undermined, Hong Kong edge being dulled
The One Country, Two System concept should have been a major piece of Hong Kong uniqueness. The introduction of National Security Laws had unfortunately seen Hong Kong being viewed with increasing suspicion. To undermine that concept may be part of a contrived

attempt to squeeze China. Hong Kong business environment got hurt, especially the financial sector. It has not been easy to get investment and tourism back to Hong Kong.

Hong Kong is part of China, but different from China
To counteract misguided international perception, we need to restore Hong Kong's reputation as an open, fair, tolerant and, most importantly, free society. The key message here: Hong Kong is part of China, but different from China.

What made Hong Kong tick before, let's bring them back
In recent years, Hong Kong has seemed to have veered into a state of indecision in policy and inefficient in execution. Issues drag on unresolved, or when tackled the outcome not being effective. Some of our neighbours and competitors, like Singapore, may be pulling ahead.

It could be said that Hong Kong's great advantage is to have Mainland support. It could also be said that Hong Kong businesses may have got so used to having that support to become complacent and stagnant. Hong Kong also needs to pick itself up, bring that fighting spirit back, to want change and to make it happen.

Tell and re-tell the Hong Kong Story
Officials have led major delegations to tell the Hong Kong Story. All good, but the G2G communication should need to be supplemented at the non-governmental level, business to business, civic society to civic society. The Government can help the cause by allocating additional funding and resources for business chambers, professional bodies and civic organisations to take charge and do some of the talking. This can be business missions and delegations going out to, or it can be business partners and contacts invited to come over for conferences and visitations.

Newer markets
To counteract geopolitics, and to extend beyond traditional markets, it has become more necessary to foster closer economic ties with Belt & Road countries and to reach deeper into the ASEAN market. We recognise there have been efforts in this regard. What Hong Kong may be at a disadvantage is her lesser capacity and capability in providing Halal-compliant (even better, Halal-certified) products and services. Government support and incentives can accelerate developments in this regard.

For tourism, experience is king
Kai Tak Cruise Terminal
The Kai Tak Cruise Terminal has been a grand piece of infrastructure not able to produce the economic benefits promised. Until the ships call more regularly, the terminal will look deserted. Solutions may lie in fashioning other use purposes to draw traffic. And when the ships do arrive, we must do better to shuttle passengers into town and back.

Kai Tak Sports Park
Hong Kong people will look forward to the opening of this other grand piece of infrastructure. The Government has plans for major events like concerts to be staged; the next edition of Rugby Sevens will move to the new venue. We need to see those plans them well-executed. In sports, we do not like to see the favourites to have slip ups.

Keep the Olympics frenzy going
It was good to have the National team tour Hong Kong after the Summer Games. It could be greater if we extend that concept. Hong Kong can also invite select Olympians from other

countries to participate, either for a little revenge or for more bragging rights, through a fusion of sports and entertainment. All-star exhibition games following a major tournament is not a new concept. We can fashion our brand of "sportainment" to complement the regular sports tournaments that we should also want to host.

Mega events or meagre events?
The Government has sought to attract visitors with "mega events", yet some of the activities on the compiled list just do not quite match the "mega" label. Inundating the menu of choice with ordinary events will not help the cause and can even dilute the value of the genuinely special offerings.

Museums
Hong Kong is also one of the only two places outside Beijing that can boast a permanent Palace Museum collection. There have been suggestions for more collaboration among the three Palace Museum collections. We think this is a good idea.

Have things Halal compliant
Higher-end travellers look more to a satisfying travel experience. Among the potential high-end visitors are ones from Middle East countries. Whether they come for business or pleasure, they will form an impression of and will rate Hong Kong attractiveness according to how easy it is for them to find amenities that meet Halal requirements and religious needs.

Help the SMEs
The rebound post-Covid did not happen as expected, and many SMEs have found it hard to bring business back to where they were pre-pandemic. The Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS) ended in March 2024. The Pre-approved Principal Payment Holiday Scheme had expired in July 2023. These schemes were purpose-made during the pandemic. They should need to end, for the circumstances have changed, and for the various issues and scams that have been uncovered.

SMEs still need plenty of help. The Government should consider:

- Increasing the insurance amount under the Export Credit Guarantee Programme
- Raising the funding ceiling for the SME Export Marketing Fund and the BUD Fund
- Streamlining the application process and documentation requirements for these schemes
- Exploring ways to further tweak HKMA's 9 measures intending to support SMEs in their financing arrangements

Help SMEs embark on their business transformation
All businesses including SMEs need to face up to the structural change in the Hong Kong economy. The progress of digital transformation among SMEs can be and need to be faster. The Government can consider:

- Enhancements to the Technology Voucher Programme
- Further support to develop capacity for e-commerce

Leave no SME behind in the digital economy
Rewarding early adopters of e-filing with the IRD, the Companies Registry and other agencies can prompt a quicker switch from paper to digital methods and processes for book-keeping, accounting, auditing and company secretarial works. Digital government is one driver of the

digital economy. Digitalisation of business-related public services enables if not pushes SMEs to digitalise their business processes, which can in turn spark their digital transformation.

Incentives to reduce rent
A major cost component afflicting many SMEs is rent. Despite the slowing economy, landlords tend not to want to reduce rent. One often cited reason is reducing rent can affect the valuation of the underlying asset, which can in turn affect the landlord's own credit and financing arrangements. There could still be room to devise incentives for more landlords to become willing to take some haircuts.

Re-industrialisation
Bring policy in line with re-industrialisation need
Hong Kong has not had a modern industrial development policy for a long time. Codes and standards for old industries will not suit new industry needs. The Government now needs to bring the policies, regulations and rules to make them fit for the modern advanced manufacturing purpose. Under current rules and practice, a manufacturer who wants to set up a production line in Hong Kong will likely need to approach many different departments. The process can take long, maybe too long because, for products in industry 4.0, how fast one can commence production is crucial. Better coordination among various departments and agencies can be helpful.

Commercialisation of research results
HKIoD has great respect for the many achievements local universities have made in upstream research, but we need to see more efforts downstream to turn research results into products that have impact. We can consider new schemes or further tweaks to existing subsidy programmes to support pilot scale experiments to hasten the pace of commercialising research.

Revive the capital market
A sluggish IPO market
This has not been a good year for the IPO market, and we may not be able to count on things to turn for better next year. Quality companies from Belt & Road countries to list in Hong Kong can help diversify the market. Quicker turn-around time in reviewing listing applications may make the Hong Kong market even more attractive.

The GEM Board
The GEM Board is not getting traction, whether among potential issuers or among investors. An accessible and efficient market for startups to raise capital ought to be an essential complement to Hong Kong's effort to seek economic growth through innovation/technology and re-industrialisation.

The case for an OTC market
Over 100 hundred companies have gone de-listed under the new de-listing framework that came into effect in 2018. According to news reports, another 70+ issuers could become delisted in a year or so if they cannot turn themselves around before the deadline. Distressed assets have their demand. An over-the-counter market enables investors to dispose of holdings. It could also help distressed companies turn things around.

Market regulation to comport with market reality
The Exchange periodically review the Listing Rules and related Corporate Governance Code provisions. Some aspects of the recent Corporate Governance Code review, however, have drawn significant disagreement (e.g., hard-wired rule on long-serving independent directors,

hard cap on number of (local) directorships). When reviewing and updating corporate governance rules and code, we should not overlook Hong Kong market reality. We tend to believe stakeholders will rally and support proposals that will actually make the Hong Kong financial market competitive again.

The economy and people's health – duty on liquors

There have been calls to reduce even remove the excise duty on liquors. The proponents want that to help foster Hong Kong to become a major trading centre for spirits and help the economy along the way. We have reservations. Duty on wine and beer has been removed some years ago. When tobacco has long been subject to a hefty duty, one would ask why alcohol which is just as much an addictive and health threatening substance can be completely off the hook. We would not favour a complete removal of duty on liquors. Should there be a rate reduction, the Government should also consider re-imposing some duty on wine and beer. The wine industry has found its footings. To impose tax on alcohol consumption at restaurant or in retail is not unreasonable. With bonded warehouse arrangements, cross-border trade and distribution need not be affected.

The current scheme does inherently put higher priced liquors into a disadvantage. To redress that, some would suggest a tiered approach where higher priced liquors can be taxed less; others have recommended a change to tax on quantity rather than ad valorem. We can agree to tweak the mechanism to level the playing field.

Silver economy and elder care

The silver economy boasts significant market potential. Policy schemes and incentives can help bring more quality products and services to that market, creating business opportunities for suppliers and enhancing choice and comfort for the users.

With the current wave of emigration, Hong Kong not only loses a significant portion (easily two generations worth) of the current and future productive workforce. The departure of many at their prime age also means their elder parents and grandparents are left behind, to be on their own, with much more need for their proper care. A proper policy to tackle the issues that will come with a fast-ageing population becomes ever more important.

The overall policy aim should be to help the elders break the silver ceiling, define what growing old should look like for themselves, and not be unduly limited in what they can do and want to do just because of their age.

Land use

An exclave-enclave concept to quicken the pace of development and transformation

High land costs and long lead time hampers transformation of old business or the development of new industries. Though we are pushing ahead with the Northern Metropolis and Hetao developments, it will be some time for such to have scale.

An SAR exclave on the Mainland can allow businesses to have quicker access to land plots to build new industries. Running on SAR laws and regulations, the SAR exclave is as much a Mainland enclave that gives resident businesses access and exposure to international market. The way Hengqian has benefited Macao can be a model for how Qianhai or another designated zone in the Greater Bay Area can benefit Hong Kong development.

Container terminal and the future of maritime

Cargo throughput at the ageing Kwai Tsing Port Facilities is not likely to return to its former heights. Geographic constraints will also preclude a significant upgrade. For Hong Kong to remain a major maritime centre, a long-term strategic plan for port development is needed. That plan may see the ultimate relocation of the existing port facilities, making available a large tract of land for urban redevelopment.

The housing situation

Housing have long been the pain point. A number of policy measures have been rolled out in recent years. We do need to give them some time to work.

Tangfang not a Hong Kong pride

Subdivided flats – tangfang – cannot be a Hong Kong pride. The community widely anticipates action plans with specific target dates to an end of the phenomenon. The Government now takes the elimination of low-quality tangfangs as priority. Sensible move, but on what criteria? Too lax a standard could just mean a pass for many dwellings that are otherwise less than inhabitable.

Revive the property market

Interest rates trending down should help the property market. The heat and pressure from speculation may not be as much as it once was. There may be reasons to allow again the purchase of residential property for purpose of the Capital Investment Entrant Scheme.

Corporate Rescue

Rescue the businesses that are going under, and save the jobs

Corporate rescue legislation has dragged on for two decades. Time and again, when a better regime to help companies turn things around is needed, we are faced with the sad reality that the law is not in place. Even insolvency practitioners will agree that the existing options currently available in Hong Kong are grossly inadequate.

The era of stalling and time wasting in LegCo is over. Corporate rescue legislation needs to play catch up. It is important for the Government to devise a flexible regime that gives sitting company directors real leeway to explore restructuring options.

The Government would seem to take the view against debtor-in-possession. But the original team may be the ones best familiar with the business, the ones best suited to rescue the business. The Government would also be harsh on directors when it comes to “insolvent trading”. In the face of personal liability, company directors may well choose to kill the company rather than to seek a rescue.

The Government may be looking to UK and Australia as model. Once the toughest regime on insolvent trading liability, Australia has since 2017 been on a U-turn, promulgating safe harbours as relief and has been willing to take a lighter touch enforcement approach.

All in all, a meaningful corporate rescue regime must be one that facilitates restructuring to save a business. If the rules are too tough, the companies will just fold up（太過嚴苛，結束的多！）

Corporate governance

Board Readiness Training for First-time Directors Before Appointment
and Continuing Training to Keep Up

HKIoD welcomes the Exchange's latest proposal to mandate training for first-time listed company directors and to require all directors to have continuing training. For those who do not have directorship training nor experience whatsoever, undergoing training on effective directorship and corporate governance is prudent. First-time directorship training should be a prerequisite prior to the director coming on board, however. The Exchange should go further. The Exchange should strive to encourage individuals to have become ready for a board seat prior to appointment, rather than to start acquainting themselves with the demands of directorship post-appointment. We believe all company directors, when they first assume their posts, should have a firm grounding of the skills, knowledge and qualities required to meet the corporate governance demands of today.

The Institute believes that attaining HKIoD Diploma level credential (or higher) should qualify as initial training now proposed for First-time Directors by the Exchange. Drawing on its vast training resources, the Institute is curating a Diploma level course programme to help candidates become ready for appointment to Hong Kong listed companies. The Institute also recommends transition course(s) for credentialed/experienced directors from other markets. HKIoD will gladly work with the Exchange to design and offer such programmes, and an accreditation regime for directorship training in Hong Kong.

Majority INED for listed companies?
We are glad that the notion of having a majority independent board is now getting more traction. We have said it before, as early as 2011, that to have majority INED will better enable independent directors to collectively play their roles. With INEDs comprising the majority, their active involvement in board matters becomes more necessary and their time commitment to do so better valued.

Sports Governance
Hong Kong athletes have once again proved themselves not rubbish. The sports associations, through their basic training programmes, are often where a future Olympian begins their journey to glory. Governance at local sports associations have drawn some attention in recent times. Insofar as sports association are supported by public money, how well they are run is not just a matter of corporate governance, but also a reflection of Hong Kong public governance.

New guidelines on the corporate governance of sports associations will be rolled out soon. HKIoD has over the years been providing customised training as well as specific consultancy and advisory services to various sports associations to up their game in governance. HKIoD will continue to be a willing partner to help sports associations and their boards get even better at their governance. HKIoD also has a roster of people who had been trained to take up directorships and who could have specific expertise that can meaningfully contribute to the board governance at sports associations.

Tax governance framework
The FSTB and IRD will put forward new rules to implement global minimum tax and to introduce a Hong Kong minimum top-up tax to complement the global anti-base erosion rules. The new rules will be complex. Businesses can use plenty guidance in preparing for the change. Their boards need to be ready.

From a broader perspective, the IRD can help businesses in devising a tax governance framework for companies to adopt. Singapore is a case in point. According to official information, the Singapore Tax Governance Framework, or TGF, is a voluntary compliance initiative that a company may participate in to demonstrate that it has good tax governance and tax risk management. Adopting the framework helps companies attain and maintain good standards of tax governance and raises tax governance to attention at the Board level. The framework features a set of broad principles and key practices which a company should incorporate in its tax governance policy for effective management of tax risks. In the long run, a company's commitment to the TGF supports a collaborative and trusting relationship between the company and tax collecting agency, leading to lower compliance costs. HKIoD will be happy to work with the IRD, tax practitioners and other stakeholders to devise such a framework suitable for Hong Kong.

Forward Faster to sustainable development

The United Nations 2024 Sustainable Development Goals Report reveals alarming stagnation in global progress, with only 17% of the goals on track against the 2030 deadline. Just half minimally or moderately progressed while over a third stalled or even regressed.

Seeing that there has not been enough action happening at the pace and scale needed to deliver on the 17 SDGs, the United Nations Global Compact had launched in 2023 the "Forward Faster" initiative. Companies can join the Global Compact and commit to Forward Faster targets voluntarily.

Hong Kong's larger policy making should also need to drive forward faster towards sustainable development.

For listed companies, there are now climate-related disclosure requirements designed to align with global sustainability disclosure standards. Businesses will also need to prepare for nature -related disclosures though they are not mandatory yet. HKIoD advice is, companies should not see such as just another set of rules, for that will encourage a "tick the box" mindset. Meeting the disclosure requirements can pose some challenges, but the exercise can still help uncover areas where the company can make further progress towards sustainable development. Regulators in implementing the disclosure requirements will be doing a lot of good to guide companies to not lose sight of true sustainability by miring too much into sheer compliance.

SMEs are more cost constrained or cost sensitive, yet our policy needs to make sure that SMEs are not left behind in that drive towards sustainability. In the current economic environment, we may need to cut some slack, have some "trade-offs", to give SMEs more time and support. Judicious use of incentives to reward early adopters can be useful.

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We continue to believe Hong Kong has a lot to offer; the pearl can regain its lustre. But we have to be smart in marketing ourselves, that we are so closely tied to yet be different from the Mainland. We will have a much better chance to succeed if we can get our governance right, from public governance to corporate governance.

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