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The Hong Kong Institute of Directors
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**HKIoD's Statement
ahead of
the Financial Secretary's Budget Speech
scheduled to be delivered on 28 February 2024**

The rebound post-Covid did not happen as expected. Interest rates remain high. Military conflicts threaten to escalate. Attendees at our recent annual Symposium shared their worries. Nearly two-thirds (65%) of the respondents to our quick poll believed the economy for 2024 will not improve and may get worse.

The Government spent money to deal with the pandemic and its aftermath. With an uncertain even grim outlook, land sale and stamp duty revenue have been much less. Budget deficit likely to stay. The Financial Secretary in a December blog spoke of the need to “grow the pie ... to open up new horizons through accelerating economic growth, which will ... let us have new resources to address various needs.” HKIoD has indeed long subscribed to the motto, that economic development is our best friend when it comes to finding new monies to tackle livelihood issues. With sustained economic growth, all walks of life will be that much more able to share in that prosperity.

Steering the Hong Kong economy on course for recovery and for better days ahead must be one priority, yet relief to help businesses and people get through the difficult time is essential. SMEs must see concrete palpable help or more of them will go under and we lose the jobs. The less fortunate No-nothings (N無人士) do not tend to benefit from the usual relief measures, and they need to be taken care of.

The state of the economy

The night is still young ...

The pandemic has changed Hong Kong people's habit. With home entertainment and online shopping, there seems less an urge to spend the night out. Consumption vouchers had some effect in boosting domestic spending, but with Hong Kong people resuming their travel with a vengeance they would also have sent their higher spending abroad, helping other economies ahead of our own. The pandemic may have changed visitors' habits, too. Tourist numbers have not quite returned to the level pre-pandemic. And those who have come seem not to be just wanting to sweep up luxury goods.

Many had looked to a night economy to spur consumption. Some events have done well. In the long haul nonetheless, the better night economy is made by a better day economy, not the other way round. The better day economy will hinge on how well we transform our business for a better tomorrow.

Transform for a better tomorrow

From city airport to Airport City

HKIoD organised a delegation to the Hong Kong International Airport and members who went on the tour were impressed with the developments. There is a transformation, from “city airport” to an “Airport City”. With a third runway in place, and with quieter planes flying, the night-time take-off and landing slots can be further utilised. It can help keep Hong Kong the choice hub for air travel.

Safe and reliable service

With air travel expecting to return to pre-pandemic levels, all aspects of air transport will need to gear up for the pace and pressure of servicing many flights and many passengers on a daily basis. We lost many workers in the aviation industry during the pandemic. We need to attract more talents to join the industry or to return.

Be nice to visitors

When organisers were picking a place for events in 2023 Hong Kong would not rank too high on the choice lists given the travel restrictions. We have lifted those restrictions, and we can hopefully see even more exhibitions and conventions coming or coming back in 2024.

While London is famous for their *black cabs*, Hong Kong reputation could be tarnished with our local *black taxis* (黑的).

We can – indeed must – do better to take care of passengers coming off cruise liners at the new terminal. Perhaps there is no need to rush to build coverings to encase the airport rail, but we must also find better solutions to keep passengers safe when typhoons or rainstorms hit but be able to move them quickly when danger is clear.

Spend other people's money!

Given the dwindling reserves, we will caution against more rounds of consumption vouchers for all. If we are to spend more fiscal dollars to stimulate consumer spending, we should rather seek to attract more visitors to bring their spending here. We can support reward or rebate schemes for visitors to offset hotel costs with qualified spending above certain thresholds.

Move on from the Messi mess

Many fans were disappointed to have watched a game *together with* Lionel Messi. What should have been a joyful exhibition game left much sour taste. The Government would withhold sponsorship money, and the organisers had now promised some refund. There were curious circumstances surrounding the whole saga, and we may never have the full story. The star player himself had moved on to play his next warm up games but did not score. We shall better him by scoring some goals in the next mega events. This recent edition of the Lunar New Year Cup football was well received. Hong Kong Sevens is to come. Beyond football and rugby, music concerts can draw fans from all over. There are merits in extending the coverage of the Mega Arts and Cultural Events Fund.

Newer, better means to celebrate

After a hiatus of five years, we had three firework shows in close succession. The shows did attract crowds. When many places around the world are ditching firework shows from their celebration programmes, Hong Kong should need to move on to newer forms of celebrations – drones, laser shows for example. The C919 flight demo over the harbour could be another inspiration for alternatives to mix things up.

Superconnector to seek new connections

While we seek to transform our economy for a better tomorrow, the advantage of Hong Kong being the Superconnector does not change. Hong Kong's identity and utility as superconnector rests on it being part of China, but somehow different from Mainland China. National unity is of paramount importance, but under that the distinct role of Hong Kong at the intersection between the Mainland and the rest of the world must not be forgotten.

The Superconnector would need to seek new connections, however. We share similar sentiment among some sectors that we somehow need to show real substance and progress at super-connecting, else it is all just a glamorous slogan.

Tell the Hong Kong Story

Officials have led major delegations to tell the Hong Kong Story. The ETOs, TDC, IvestHK, The Tourism Association, and business chambers and industry associations alike can continue to do their part to re-market Hong Kong as a desirable place to do business, to visit or to live. The Hong Kong Story is yet more believable if we stay true to the "part of China, but different from China" premise.

Consultation for Article 23 legislation has begun. Individuals and businesses, local and foreign alike, will want their concerns to be heard. The task is to overcome those concerns, emphasizing that enacting National Security Laws will not be a detriment but in fact will better safeguard the Hong Kong SAR as a free society and an open economy, with high degree of autonomy under the "One Country, Two Systems" overarching principle. We believe the enactment of National Security Laws will provide a solid legal foundation to foster a stable Hong Kong SAR for people to live and for business to thrive.

Just in case someone is trying to twist our story and make this into another sign of an eroding rule of law, the Government can counter the criticism by dedicating resources to recruit more capable and venerated professionals to the Hong Kong bench. Litigation matters are complex and getting more so, and caseloads are getting heavier. Keeping the Hong Kong judiciary at a high standard running efficiently helps us tell one aspect of the Hong Kong Story.

RMB internationalisation

The Hong Kong market is well placed to facilitate RMB internationalisation. Connectivity with the Mainland market is where we can edge out other offshore RMB centres. Hong Kong can do well with further enhancements to the Connect Schemes.

New listings

The Stock Market did not perform too well in 2023, and the number of new listings has been low. This must have a knock-on effect on the professional services sector serving the capital markets. The number of overseas (non-Mainland) companies listing in Hong Kong have in particular dropped significantly, down from 14 cases in 2020 to zero for the first half of the year 2023. The Hong Kong Stock Market should need to diversify itself to become a truer global market. This should require re-doubling efforts to connect companies from the Belt and Road countries and from ASEAN with the Hong Kong capital market.

GEM reform

The Stock Exchange has concluded its GEM reform consultation. The market will inform us whether the changes would truly be competitive. One of our concerns remain whether the Exchange has started out in a direction for reform that favours tech companies but ignores the capital raising needs of other SMEs, SMEs in the more general economy. Our members, many of whom are owners/directors of SMEs in the more traditional economy, have lamented the

difficulty in going public to help take their business to the next level. This is consistent with the views and thoughts of many market practitioners, that SMEs have been having a hard time trying to go public to raise capital.

Stamp duty

With a sluggish market, there are calls to lower stamp duty to allay stock transaction costs. Stamp duty hike was instituted in August 2021 and that move would have revenue in mind. In the long run, the Government should factor the issue in the long overdue comprehensive review of the tax regime.

Bank governance

The HKMA had proposed to simplify the three-tier banking system by merging Restricted Licensed Banks with Deposit-taking Companies to form a new second-tier. We are largely in support of the reform, for the prospect of such reform enhancing the banking sector's competitiveness to bolster the Hong Kong IFC status.

In December 2023, the HKMA issued a letter to consult the banking industry on the proposed revisions to the SPM module CG-6 "Competence and Ethical Behaviour". SPM CG-6 has its purpose to reiterate the importance of a board's role in embedding a culture of competence and ethical behaviour among staff at all levels within a bank's organisation structure. The proposed changes would further stipulate the role of a bank's board to set clear direction for manpower development (headcounts, upskilling or reskilling, as the case may be) to meet the talent needs in supporting business priorities and the overall strategic plan for the bank.

Banks and bank directors

Banks and financial institutions, whether traditional or of the fintech kind, will all benefit from having good competent outside directors to serve on their boards. Given the role banks and financial institutes can and will play in our journey towards a digital economy and sustainable development, there can be initiatives and campaigns to attract more talents with different industry and skill backgrounds and to make them viable candidates for bank and fintech boards.

Virtual assets

The FTX collapse and the more recent JPEX scandal has prompted regulators to react. The SFC just recently tightened its policies on virtual currency dealings. The two cases nonetheless have a lot to do with mismanagement, lack of control and plain old fraud rather than the underlying technologies. The aim should be to prevent the bad but not stifling the utility and good that crypto assets can bring to the market. Mainland-Hong Kong Connect Schemes can possibly include and cover virtual assets.

Commodities Connect

There should be benefits for Hong Kong to extend Connect Scheme concepts to cover commodities trade.

Innovation, technology and Re-industrialisation

Innovation cannot be planned programmatically, but innovation can result if there are policies to foster an environment, at atmosphere where inventions and ideas can come together to spark new services or products that please consumers. We share the view held by many in society, that Hong Kong boasts good strength in fundamental R&D, but we need to turn more results upstream into viable products downstream. Innovation and industry should go hand in hand.

Hong Kong will not return to the old industrial times of the last century, yet Hong Kong can embark on industrial 4.0 for this century. Hong Kong now has an I&T Development Blueprint. A good complement would be a re-industrialisation master plan.

Northern Metropolis and re-industrialisation

The Northern Metropolis concept provides an arena for the Government to up its game in fashioning new towns with strategic importance to the Hong Kong economy and where people will aspire to live and work there. One aim ought to be to redress the spatial mismatch between jobs and housing that have plagued Hong Kong. The Northern Metropolis Agenda is to take an industry-driven development approach. Re-industrialisation should be one driver.

Digital transformation for a digital economy

Digital economy requires digital transformation, but digital transformation is not just a technical matter about having new hardware or software to digitise current processes. It is more about devising an integral business model and strategy made possible by emergent technologies.

Many companies may have realised the need to embark on digital transformation, but may not have a strategy to do so. At our recent Symposium, only 10% of respondents to a quick poll said they have a good strategy for digital transformation. As one panel speaker at our Symposium lamented, there have been many cases of companies attempting digital transformation but ended up in failure. One common reason: it was a disjointed effort. Indeed, successful digital transformation requires board level discussion as one strategic imperative. All company directors should have digital literacy, not to solely rely on technical experts.

The Cyberport Digital Transformation Support Pilot Scheme

The 2023-24 Budget had set aside HK\$500 for a Digital Transformation Support Pilot Programme. The programme has launched, with subsidies on a one-to-one (1:1) matching basis in order to assist SMEs in applying ready-to-use basic digital solutions. We think this is an important milestone in supporting SMEs in their digital transformation journey. A timely review of the results and progress of the DTSP should inform how and when to enhance or otherwise integrate existing schemes (such as the Technology Voucher Programme) to improve on the scope and level of assistance.

Incentivise early adoption of e-filing of tax returns

Mandatory e-filing of profits tax is only to come in 2030. Voluntary e-filing of profits tax is now possible but take up has been slow. The book-keeping, accounting and auditing leading up to tax filing for many SMEs very much remain a paper-based process. It is possible that SMEs could be enticed to adopt early with appropriate incentives, such as extended filing deadlines, higher rate of tax deduction or rebate, or full(-er) waiver of business registration fees above and beyond those enjoyed by paper-filers. We can envision some SMEs being able to tap the DTSP or an enhanced TVP to adopt digital solutions that upgrade and transform their business processes to become showcase e-filers.

Telemarketing calls are running out of control

Telemarketing is still relevant in a digital economy if done right. Discussions on reining in telemarketing began as early as 2005. There were some legislative movements up until 2019 or so, but progress stalled since. To rely on operators' self-discipline is not enough, as the number of annoying calls skyrocketed in recent times. The Government should bring the matter back on the agenda and have a concrete timetable for a good piece of legislation.

New economy, sustainability and human capital

Technology will replace jobs, but it will also create new ones. One panel speaker at our Symposium advised, it is much more likely that the better future jobs are the ones that require human workers as co-pilot. Human oversight and intervention will continue to have its value. The point is to prepare the workforce for the newer, better types of jobs that will emerge, through upskilling and retraining. Enhancements to the Continuing Education Fund can help individuals pursue training, and additional tax allowances can incentivise businesses to invest in their workforce.

Sustainability and board governance

Panelists at our recent Symposium would agree that directors have an important role to play in their organisation's sustainability efforts. Very accurate. More than half (55%) of the respondents to our quick poll at our recent Symposium expressed that they already have a good strategy in place in the journey to a sustainable future, with some indicating a sense of good achievements in their efforts. Very encouraging.

Be it from regulators, investors or stakeholders, there will be increasing demands and expectations on any company to showcase their strategy and actions towards a sustainable business model. Robust discussions in the boardroom will be necessary to keep going at the journey. Real, deeper level of diversity in the boardroom makeup can help in those discussions.

Better directors means better corporate governance

HKIoD believes lifelong training and credentialing of directors in corporate governance knowledge and skills is an important yet often neglected segment when it comes to nurturing talents for the development of Hong Kong. With AI being the hottest topic these days, some may even start to imagine a world with robo directors. Many will have learnt that as early as 2014 a Hong Kong venture capital firm had already sought to adopt VITAL, a machine learning algorithm, to help in investment decisions, and the output would be given regard as a board vote. The law thus far may be putting a barrier to prevent robots from replacing humans in the boardroom. This should not be a reason for complacency. Poor performances by human directors will fuel the thought of doing away with the concept of human directorship. To keep the art and practice of directorship firmly in the domain of human intelligence, we need directors who are better trained and better prepared at performing their duties. They should be ones who can use and know how to use AI to *augment* board decision-making, not shadowed or displaced by it.

Majority INED

We are glad that the notion of having a majority independent directors on listed company boards 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. Majority INED can help companies with their digital transformation and sustainability strategy formulation.

Refresh our tax system to keep us competitive

Hong Kong will see the implementation of a global minimum tax under BEPS 2.0 in soon enough time. A revised foreign-sourced income exemption regime is being put into place. MNEs will be affected, and they need better certainty.

Developments in the international tax landscape has and will continue to make the Hong Kong tax system more complex than it was before. The changes would also require Hong Kong to review the effectiveness of existing tax incentives in attracting businesses to Hong Kong. It

will mean a rethink of the investment promotion strategies, requiring astute combinations of tax and non-tax incentives to be successful.

Specific incentives for regional headquarters

With headquarters economy a vouched policy aim, we would recommend specific tax (and non-tax) incentives to attract companies to set up regional headquarters and/or corporate treasury centres here.

The proposed re-domiciliation regime should help the cause, but the IRD will need to put out guidance on transitional tax matters. The re-domiciliation regime as proposed is only for inbound movement. We would encourage the Government to also devise and implement an outbound regime, so companies contemplating a move to Hong Kong can fully assess the pros and cons to firm the decision to come here.

Wealth for good

We agree with the postulation of a recent report by the Financial Services Development Council, that Hong Kong is well placed to be a philanthropy hub. The cause can be helped with further tax incentives for philanthropic activities.

IP tax regime

We also need to improve the current IP tax regime in light of the new revised foreign-sourced income exemption regime, to keep it attractive for companies to establish IP-related businesses in Hong Kong. Where super deductions for R&D expenditures are allowed, they may need to be replaced with qualified refundable tax credits to have less of a drag-down effect on the effective tax rates calculations under BEPS 2.0. To the extent we are integrating with the Greater Bay Area, tax deductions for R&D undertaken in the GBA should be allowed.

Patent box tax incentives

There is already a plan to introduce legislations to provide for a patent box tax incentive regime, which should encourage the innovation and technology sector to accelerate their quest for patentable inventions. Other jurisdictions (including Singapore) are offering similar concessionary regimes. The Government should continue to be vigilant to be sure that Hong Kong's IP-related tax (and non-tax) incentives remain competitive to meet our goals.

Enhance tax treaty network

The Government must continue the good effort at building out the network of double taxation treaties, or DTAs, with more urgency on major trading partners and those jurisdictions that are members of RCEP. We will, of course, desire an admission to RCEP at the soonest opportunity.

Loss-carry back; Group loss relief

Introducing loss carry-back and group loss relief should also make the tax system more in line with other jurisdictions and be competitive.

Budget and Tax policy Unit

To refresh Hong Kong's tax system to stay competitive requires the resulting tax policies to work in tandem with investment promotion strategies to support Hong Kong's economic development. Hong Kong's economic development hinges on its ability to play that superconnector role, participating in the domestic circulation while facilitating international circulation. The framework should need to be modernised to bolster Hong Kong's strength and to accommodate the newer business models needed to compete.

Setting tax policy and collecting the tax are related yet separate tasks. We expect a firmer game plan for the (now called) Budget and Tax Policy Unit to do *its* job.

Rescue the businesses that are going under, and save jobs

When a business fails, the jobs go away. People's livelihood becomes an issue. Social stability is threatened. To save businesses from going under is to save jobs.

Corporate rescue legislation has dragged on for two decades. Time and again, we say "it would be nice to have a corporate rescue regime, but we have not yet made it into law!" Had the regime been in place, some of the companies that have shut their doors during the pandemic (and since) may have been able to choose a different course of action.

It is therefore 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 during the pandemic taken 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!)

Housing and urban renewal

Stamp duty for residential flats – spicy or not spicy?

There are calls to not just relax but to remove all forms of heightened duty for the purchase of residential flats. The sentiment is that speculation is no longer an issue to warrant continuation of the heightened duty. We will not object to retaining or augmenting some form of heightened duty to arrest pure speculation. Deferring payment to time of sale or disposition and waivable upon some holding period could be a feasible option. Should heightened duty be drastically relaxed there should remain a policy interest in encouraging genuine self-use and the need for many young working families to have their first home.

From raw land to housing

Streamlining approval procedures, more flexibility in transferring plot ratios, enabling developers to offset or be reimbursed for costs incurred in providing basic infrastructure to requirement could all mean a quicker cycle to bring housing units to the market.

Urban renewal and redevelopment

To expedite the lowering of compulsory sale threshold and simplification of related procedures should result in a quicker pace of urban renewal. There could be room to tweak the stamp duty relief for redevelopment purposes to further incentivise developers to act.

Building maintenance

We see merits in launching a fourth-round funding under Operation Building Bright 2.0 and the Fire Safety Improvement Works Subsidy Scheme (FSW Scheme). We also recommend reserving money to go along with the roll out of the Urban Renewal Authority's preventive maintenance subsidy scheme.

Livelihood

Minimum wage adjustments

We believe annual review of the minimum wage is feasible and practical, but that should require the adoption of an adjustment mechanism based on indicators that reflect the rise and fall of purchase power and the quantum of wage necessary to meet the cost of living for a working family.

Minimum wage does have an impact on the overall costs to businesses, which can translate into higher prices that consumers pay. It will continue to be a source of tension between businesses and their workers. Though it may never go away, that tension may be released in part through an upgrading of the economy, through digital transformation, through re-industrialisation, to add better value so businesses can create better jobs with better pays for their workers.

Family with kids

We can support cash stipends for newborns, at least for the symbolic gesture in encouraging childbearing. The stipend amount of \$20,000 will hardly be enough for child rearing. Fashioning a childcare industry can give women with children more reasons to join or re-join the workforce. Policies that foster strong support for families with kids, from housing to education, from jobs and upward mobility, are the true incentives to increase the birth rate.

Healthcare and elderly care

We need to have yet better mechanisms to balance the load between public and private healthcare. We suggest increasing the annual cap on Voluntary Health Insurance Scheme deductions and extending its scope of coverage beyond hospital insurance protection to outpatient services, to entice more people to choose private healthcare services.

Meanwhile, with an aging population living longer, the demand for services will only increase. The Government has sought to improve the support available; health care vouchers for example, and to make them portable and usable across the border. Retiring to the Mainland is becoming a practical option for more people. Some in need may remain in Hong Kong, however. A wider implementation of the medical-social collaboration model can continue to transform how we provide elderly care services to improve the quality of life for the recipients.

With the 2018-19 Budget money has been dedicated to a Second Ten-Year Hospital Development Plan. We should now make sure the second development plan meets healthcare needs going forward, and the implementation meshes with Hong Kong's developmental plans (e.g., the Northern Metropolis development).

Smoking and drinking are each a health risk

Longevity tends to come with a healthy lifestyle from early. We will support further tightening of tobacco sales thru tax. A wine industry has grown with the removal of duty. Alcohol consumption, however, poses as much a health risk as smoking. We think the industry has found its footing. Wine consumption has become much more inelastic to be able to withstand the reimposition of some duty as a source of government revenue. With bonded warehouse arrangements, the cross-border trade and distribution side need not be affected.

Transform how we manage our waste, for a better tomorrow

Waste charging

Implementation is now pushed back to August. The extra time may help people understand the requirements more. The extra time should also enable the Government to devise better coordination among various departments to effect implementation. The policy initiative involves many sectors and interests, and it affects all strata of social life. Different buildings, different realities. Different communities, different needs. The Government may be right in that it requires a change in habit. What is needed is a workable context, down to each community, each building even, for denizens to make that change.

Disposable plastics

Implementation has been brought forward from 2025 to 2024. Nonetheless, Hong Kong is still lagging behind many countries including some of our neighbours.

Recycling, upcycling and downcycling

In Singapore, a startup company has managed to take otherwise not recyclable plastics and convert them to a bitumen substitute that has been put to road repairs use. Locally, we have examples of turning glass bottles into eco-blocks for paving. In terms of creativity, we would not be lagging behind.

One area to catch up, even to get ahead if we can, is to raise the ratio of what we can capture and recover for upcycling or downcycling. Too much of what can be recycled and reused still goes to landfills. Waste charging schemes will (eventually) come into effect. There should need to be other support to prevent wastage at source, from product design to having sufficient amenities for sorting recyclables post-consumption. Transform how we manage our waste, for a better tomorrow.

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