

HKIoD's Response to the 2015-16 Budget **Delivered on 25 February 2015**

Overcome constraints, Carry through the policies

The Hong Kong Institute of Directors made the following statement in response to the Budget Speech delivered today (25 February 2015).

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The Institute finds the Budget announced today one with aim to overcome constraints in order to carry through the policies of this Administration. On the whole, one should find the Budget to be satisfactory.

Counteracting the ill-effects of unlawful street blocking

The Financial Secretary introduced in the Budget announced today short-term measures to support some industries affected by the unlawful street blocking. We welcome those measures.

The Institute is also aware that the Financial Secretary will extend the special concessionary measures under the SME Financing Guarantee Scheme, and will enhance the SME Export Marketing and Development Funds. Though the Institute also welcomes these measures, we think they lack spice for not being real ground-breaking initiatives. If we are to really help smaller businesses cope with cash flow and help them cope with the cost of doing business, we ought to go for a two-tier profits tax regime and to introduce "loss carry back".

Businesses in some districts must have been affected while the unlawful street-blocking went on, but the harm to long-term competitiveness of the economy as a whole may ring deeper. In our recommendations to the Chief Executive on his recent Policy Address, the Institute had reminded him that, if Hong Kong still wants to cling to its claim of being Asia's World City, a City of Opportunity, we will have to embark on a new round of publicity efforts to win back the hearts of international investors and tourists. The Institute is glad to see that the Financial Secretary has put resources into such promotional efforts.

Develop the economy

The Institute agrees that Hong Kong is well-positioned to play Super-connector under the initiative of "One Belt One Road", and such will support the further development of our Nation while at the same time strengthen our own status in the economy.

The Institute firmly believes that for Hong Kong to become part of the ASEAN-initiated Regional Comprehensive Economic Partnership will bring immense business opportunities and will make Hong Kong even better in its "Super-connector" role.

For that reason, the Institute has felt the need for a third runway at our airport. But some people will have the worry that, due to air space constraints, the new runway may not bring efficiency gain to scale. The Government must set it straight with the people.

To attract the higher-spending tourists to visit Hong Kong or to come again, we must have a way towards more hotel rooms, attractions and convention facilities. The Institute wishes for an early start of the new convention centre above the Exhibition Station. We worry that, like in other

infrastructure projects, the failure to start early would only result in higher costs and longer wait for economic benefits to come into play.

Those who have lived away from Hong Kong will not be unfamiliar with food trucks. The Institute does not oppose the idea, but if we are to import from abroad, shall we not give those food hawkers and Dai Pai Dong we long have some better opportunities to thrive?

Financial technologies for a more rounded financial sector

The Financial Secretary said he has requested the Secretary for Financial Services and the Treasury to set up a steering group to study how to develop Hong Kong into a financial technology hub. The Institute agrees that Hong Kong is an ideal place for developing financial technologies. The emerging FinTech movement in Asia and around the globe suggests that innovation and creativity can reshape old-fashioned banking and financial services delivery. Regulatory approach, in turn, will need to innovate to embrace the new.

With the Shanghai-Hong Kong Stock Connect as model, the Institute wishes for a quick introduction of a Shenzhen-Hong Kong connect, and of connections not just for buying and selling stocks but also for other realms of financial investment. The Institute believes Hong Kong has all the ability to capitalise on its financial centre identity to keep a leading role in the further liberalisation of our country's finance system.

Ought to refresh the tax system to keep us competitive

The Financial Secretary said the government will amend the Inland Revenue Ordinance to offer incentives to attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong. In addition, he will consider extending the tax deduction for capital expenditure incurred on the purchase of intellectual property rights to cover more types of IP rights as appropriate.

These measures would be a response to the Institute's plea and they also reflected the Financial Secretary's agreement with the effect of tax incentives in channeling investment to spur economic development.

The Government has set its sight on aerospace financing business. The Financial Secretary could have taken up the advice to adopt tax measures to foster its development. Regrettably, the Budget merely commits to explore possible measures generally and has not yet put such in place.

We repeat our call on the Financial Secretary to give a holistic review on the tax regime, to make it more competitive and to better match economic development needs.

Dare to start a new business?

We believe that the Budget measures to support start-ups, the cultural and creative sectors and the fashion industry will help diversify our economy.

Many of those who wish to start a business, especially those of the younger age, do so with constraints in resources of all kinds. As pointed out by the Financial Secretary, many public and private organisations are offering support. Apart from provision of co-working space and financing, the other essential areas would be business advisory and corporate management support.

We are convinced that there are many capable persons, e.g., retired but still energetic business professionals, who would be ideal candidates to coach and guide those young people who set their mind on starting a new business. We often think of social enterprises offering services and products directly to customers in need. We can conceivably also have social enterprises providing advisory and consultancy services to would-be entrepreneurs.

The Chief Executive previously announced the initiation of a \$300 million Youth Development Fund. The Fund could perhaps be made available for the production of training and guidance materials. The Budget announced today will earmark funding to roll out a new phase of the Enhancing Self-Reliance Through District Partnership Programme. We recommend looking into possibilities for extending this programme to a scope beyond poverty alleviation.

Long-term development driven by talents

Hong Kong's long-term development is to be driven by talents. We recognize the Administration's commitment to develop an orderly framework of education, vocational training and qualification accreditation that features diversity, provides multiple pathways and enjoys high recognition, all towards a seamless integration of education, training, business and employment.

The Budget will allocate funds to launch a pilot programme to nurture talents for insurance and asset and wealth management services. But the Institute believes in a diversified economy such that a job in finance is not the only right career choice. The Earn and Learn pilot scheme for the retail industry launched last year, the measures that have been evolving in the construction industry over the past few years, and the training programmes in other sectors have attracted new blood to join different trades and industries. To attract youngsters to take up skills training courses and vocational programmes and to join sectors like maritime/aviation or health care is not only beneficial to industry development but also social welfare.

HKIoD believes lifelong training for directors in corporate governance knowledge and skills is an important yet often neglected segment when it comes to nurturing talents for the economic development of Hong Kong.

To maintain Hong Kong's role as a major international financial centre, Hong Kong must keep up with other major financial markets at efforts to improve banking and financial regulations, and to raise corporate governance. But corporate governance is not just for big corporations. Owners of SMEs and those who are thinking about starting a business should also pay attention. There have been plenty of cases where SMEs still find it difficult to take full advantage of loan schemes of one kind or another. One common impediment is that many SMEs could not demonstrate proper internal control and are ill-prepared to submit sound loan proposals. A better corporate governance scorecard will make it more likely for a business to obtain credit and financing.

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance. HKIoD believes that company directors should have a firm measure of competence to perform when they first assume their posts. Over time, they should strive to remain up-to-date with best corporate governance practices. Similarly, directors/governors of social enterprises, charitable organisations and statutory bodies should also be ready and prepared to discharge their duties when they start out and to keep up-to-date with best governance practices over time.

The Institute prays for the Government to draw up measures to help directors of business companies or governors of organisations of various kinds, whether those who now are and those who aspire to be, to obtain quality training so as to raise the level of their corporate governance practices.

Lacking land

The lack of land remains a major constraint to the economic and social development in Hong Kong. The Institute believes the prospect of averting the supply-demand imbalance in housing supply sooner in time still hinges on the ability to search for suitable land for housing development. On the other hand, land needs for industry and commerce must not be brushed aside in the quest for more

housing. Going forward, the Government will still have to spend effort to overcome obstacles in making land available and to reconcile land needs.

Relief measures

The Institute believes the middle class can benefit if we can indeed get the economy going, but they have for now a high burden that needs relief.

The Budget raises the reduction ceilings for salaries tax and personal assessment, and brings child allowances up to \$100,000. Together with waiver of rates (with the ceiling raised), these measures should help the middle-class families make ends meet.

We also support the extra allowances to CSSA, Old Age Allowance, Old Age Living Allowance and Disability Allowance. As for rent waiver for public housing tenants, we agree with the decision to exclude the better-off tenants.

We do worry that the Budget may not have offered much to those in the lower echelon of society. The hope is for the relevant departments to fashion on their own or through the Community Care Fund and social services groups suitable relief measures for the needy.

To improve people's livelihood will require sustained economic growth

The Institute believes economic growth remains our best friend when it comes to finding new monies to tackle livelihood issues.

The Financial Secretary did not resort to just hand out cash. We agree. But we urge the Government to better deploy fiscal surpluses to generate more money to meet future needs. The Budget made known the intent to establish a Future Fund. We look forward to more details.

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About The Hong Kong Institute of Directors

The Hong Kong Institute of Directors is Hong Kong's premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. A non-profit-distributing organisation with membership consisting of directors from listed and non-listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors. With international perspectives and a multi-cultural environment, HKIoD conducts business in biliteracy and trilingualism.

To view other statements by HKIoD on Policy Address and on Government Budget, please visit: <http://www.hkiod.com/position.html>.

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