

Budget Speech by the Financial Secretary (2)

Strengthening Foundation to Accelerate Development

28. Hong Kong's economy has recorded moderate growth for two consecutive years. The Government has been active in promoting innovation and technology (I&T) development, while striving to attract more enterprises, capital and investment institutions through diversified business promotion activities. Recently, Hong Kong has made continuous improvement in a number of economic segments. The Government's efforts to build a vibrant economy and compete for enterprises and talents have yielded considerable results:

(a) Buoyant Stock Market: The sentiment and trading performance of the local stock market improved last year. Since the beginning of this year, trading has been even more active, with average daily turnover exceeding \$200 billion recently, up by more than 50 per cent over last year's average. Total market capitalisation reached \$40 trillion;

(b) Vibrant Initial Public Offering (IPO) Activities: Enterprises are increasingly confident about Hong Kong's financing prospects. Funds raised from new listings in Hong Kong amounted to \$88 billion last year, a year-on-year increase of nearly 90 per cent and ranking fourth globally. Over 100 new IPO applications are being processed by the Hong Kong Exchanges and Clearing Limited (HKEX);

(c) Excellence in Wealth Management: Hong Kong is Asia's largest hedge fund centre and the second largest centre for private equity management after the Mainland. There are more than 470 open ended fund companies in Hong Kong, double that of a year ago, and over 1 050 registered limited partnership funds, a year on year increase of about 40 per cent. Hong Kong is expected to become the world's largest cross boundary wealth management centre by 2028; and

(d) Attract Enterprises, Capital and Talents on All Fronts

Attract enterprises: Since its establishment, the Office for Attracting Strategic Enterprises (OASES) has attracted 66 strategic enterprises, 80 per cent of which have established or planned to establish their global or regional headquarters in Hong Kong. Many are I&T enterprises with a market valuation of over \$10 billion and engaging in cutting-edge technologies. In addition, Invest Hong Kong (InvestHK) successfully attracted over 500 Mainland and overseas enterprises to set up or expand their businesses in Hong Kong last year, representing an increase of over 40 per cent. These enterprises are expected to bring in direct investment of over \$67.7 billion.

Attract capital: As at the end of last year, total deposits in Hong Kong amounted to more than \$17 trillion, a year on year increase of seven per cent. On attracting capital from emerging markets, two exchange-traded funds

tracking Hong Kong stocks were listed on the Saudi Exchange last year, with asset size exceeding \$13 billion.

Trawl for talents: As at the end of last year, various talent admission schemes have received a total of over 430 000 applications and approved more than 270 000, bringing some 180 000 talents to Hong Kong.

29. We are proactively introducing additional measures to attract more enterprises or organisations to establish their presence in Hong Kong, bringing more mega-events and visitors to the city:

(a) OASES will announce a new batch of more than 10 strategic enterprises next month. Together with those previously announced, they will invest a total of about \$50 billion in Hong Kong and create more than 20 000 jobs over the next few years;

(b) we strive to attract enterprises from the Mainland and around the world to set up headquarters or corporate divisions in Hong Kong. We have submitted a bill to the Legislative Council (LegCo) for the introduction of a company re domiciliation mechanism to provide facilitation for companies domiciled overseas to re domicile in Hong Kong;

(c) the headquarters of the International Organization for Mediation (IOMed) will open by the end of this year at the earliest. As the first international inter governmental organisation to set up its headquarters in Hong Kong, IOMed is also the first of its kind in the world that specialises in resolving international disputes by means of mediation. It is conducive to affirming the positioning of Hong Kong as the capital for international mediation;

(d) Kai Tak Sports Park, set to open officially in three days, provides a world class venue for hosting international mega events, taking forward the development of culture, sports and tourism as an industry in Hong Kong. It is also one of the event venues of the National Games; and

(e) the World Tourism Cities Federation (WTCF)'s 2025 WTCF Fragrant Hills Tourism Summit will be held in Hong Kong for the first time in April. The Summit is expected to attract representatives from some 40 countries and regions.

30. A full range of mega events that will boost economic growth and attract more visitors to Hong Kong will be held this year. I will elaborate on the details in the relevant sections.

Upholding Principles and Innovation, and Cultivating New Quality Productive Forces

31. Hong Kong is facing a rather complicated international environment amid changes unseen in a century around the world. The rise of protectionism and unilateralism has resulted in a fragmented global political and economic landscape. The future is trending towards co-operation among economies sharing mutual interests and formation of different regional segments.

32. The vigorous development of AI is reshaping the medium- to long-term global economic landscape. In particular, its development is no longer confined to a single technology domain, but penetrating into each and every industry in the form of AI+. As the global value chain undergoes profound restructuring, product design and manufacturing are moving towards further intelligentisation and digitalisation. This wave of technological reform not only revolutionises traditional production, business and consumption models, but also redefines the core competitiveness of various economies, industries and enterprises.

33. Hong Kong finds itself at a critical juncture of its development in the face of the changing global landscape and technological transformation. The Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC Central Committee) has affirmed the positioning of scientific and technological innovation as a core area of development and stressed the importance of accelerating the realisation of self-reliance on high standard technology. This points out a clear direction for Hong Kong to leverage its strength as an international platform for stepping up the development of the AI industry.

34. The Third Plenary Session of the 20th CPC Central Committee has stated that the country has to deepen reform comprehensively, advance high standard opening-up and speed up the formation of a new development landscape. We must also cultivate new quality productive forces tailored to local circumstances and promote high quality development. To achieve this, we have to stay bold in reform, dare to break new ground and innovate continuously, and unleash the innovative and economic potential through institutional reform. Through technological innovation, we can catalyse new modes and new impetus to accelerate the nurturing of new industries and to transform and upgrade traditional industries. At the same time, we must nurture and attract talent by better means to promote the integrated development of education, technology and talent, which in turn provides staunch support for reform and innovation.

35. We have to leverage the advantages under "one country, two systems" to better integrate into the national development and participate in the joint development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) in a proactive manner. We have to reinforce our connectivity with both the Mainland and the world, while leveraging synergies with overseas markets, especially those emerging in the Global South. It is by doing so that we fulfil our roles as "super connector" and "super value-adder".

Innovation and Technology

Artificial Intelligence

36. AI is at the core of developing new quality productive forces. We will leverage the edge of "one country, two systems" and our internationalised characteristic to develop Hong Kong into an international exchange and co-operation hub for the AI industry. Through frontier research and real-world application, we will endeavour to develop AI as a core industry and empower traditional industries in their upgrading and transformation.

AI as a Core Industry

AI Supercomputing Centre

37. We have been proactively enhancing the strategy and planning on AI development. The first-phase facility of Cyberport's AI Supercomputing Centre has just commenced operation, and the computing power will be ramped up gradually to 3 000 petaFLOPS this year. This is equivalent to the processing capacity of nearly 10 billion images in an hour.

Hong Kong Microelectronics Research and Development Institute

38. Hong Kong Microelectronics Research and Development Institute, established last September, spearheads collaboration among universities, research and development (R&D) centres and the industry on the R&D of third generation semiconductor core technology. The Institute leverages the GBA's well developed manufacturing industry chain and enormous market, and promotes the "1 to N" transformation of R&D outcomes and industry development. Two pilot lines will be set up at the Microelectronics Centre in Yuen Long this year and start operating next year.

Hong Kong AI Research and Development Institute

39. To spearhead and support Hong Kong's innovative R&D as well as industrial application of AI, I have set aside \$1 billion for the establishment of the Hong Kong AI Research and Development Institute. The Digital Policy Office (DPO) will formulate the establishment arrangements of the institute and its specific goals, focusing on facilitating upstream R&D, midstream and downstream transformation of R&D outcomes and expanding application scenarios.

AI Subsidy Scheme

40. Since its launch in October last year, the AI Subsidy Scheme has approved five projects led by local universities, research institutions, etc, to accelerate local R&D work relating to big language models, new materials, large synthetic biology models, etc.

Fostering International Exchanges and Collaboration

41. To bring together top talents in the industry to study the development and application of AI, the Hong Kong Investment Corporation Limited (HKIC) will be hosting the first International Young Scientist Forum on Artificial Intelligence to promote research of AI technology and its development as an industry, including Open Source technology, in particular the design and application of the open source chip architecture RISC V.

Financial and Tax Support

42. To further assist specialist technology and biotechnology companies, especially those listed in the Mainland, in raising funds and expanding business, the HKEX is actively taking forward the establishment of a dedicated "technology enterprises channel" (TECH) to facilitate the relevant

companies in preparing for listing applications. The Securities and Futures Commission (SFC) will also support to enable a smoother application process.

43. Intellectual property (IP) is an important foundation for the development of emerging industries. In addition to obtaining IP rights through local research and development, enterprises will also purchase related rights to use IP. In this connection, we will review the relevant tax deduction arrangements for various expenditures, including the lump sum licensing fees for acquiring the rights to use IP, and related expenses incurred on purchase of IP or the rights to use IP from associates, so as to accelerate the development of IP-intensive industries and promote the development of IP trading in Hong Kong.