

Budget Speech by the Financial Secretary (8)

Expanding Market Coverage

89. Hong Kong is a fully open economy. Diversification is the key to sustain our economic vibrancy. We also need to expand our market coverage to create more room for development. We have before us a rare opportunity arising from the two development strategies that our country is pressing ahead with, namely the Greater Bay Area development and the Belt and Road Initiative. Both strategies are at the core of the national development agenda, offering opportunities for us to contribute to our country's development and give full play to our strengths.

Guangdong-Hong Kong-Macao Greater Bay Area

90. The Greater Bay Area development is an important part of the national strategy to promote co-ordinated regional development. This also creates golden opportunities for Hong Kong to explore new directions, open up new horizons, and add new impetus. With a population of 70 million and an aggregate GDP roughly the size of Korea, the Greater Bay Area presents us with enormous business opportunities in close proximity to us.

91. The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (Development Plan), promulgated last week, is a milestone setting out the development directions for the Greater Bay Area up to 2035. The Development Plan identifies Hong Kong, Guangzhou, Shenzhen and Macao as the four core cities as well as core engines for regional development. Hong Kong, positioned as international financial, transportation and trade centres as well as an international aviation hub in the Greater Bay Area, will strengthen its roles as a global offshore Renminbi business hub and an international asset and risk management centre; and will devote great efforts to develop I&T industries as well as international legal and dispute resolution services. With all these advantages, we will seize the opportunity and make dedicated efforts to promote development in the Greater Bay Area to enhance its global competitiveness.

Belt and Road

92. The gradual development of the Belt and Road into an economic and trade co-operation corridor spanning Europe, Asia and Africa has resulted in strengthening ties between different regions along the route. This will create greater room for Hong Kong's economic and social development. We are seeing positive outcomes in areas such as supporting industries in exploring markets, establishing business matching platforms for enterprises and encouraging our professional services sector to participate in Belt and Road projects.

93. Hong Kong has been serving as the premier platform for helping Mainland enterprises go global and bringing in foreign investment. Our well-developed fund-raising and insurance markets will enable us to serve as a financing and risk management centre for Belt and Road infrastructure projects. The Infrastructure Financing Facilitation Office under the HKMA is committed to promoting infrastructure finance and information exchange. The SFC has also set out the factors to be considered when reviewing listing applications of infrastructure companies, providing a clear guideline for them to seek listing in Hong Kong. Hong Kong is an international financial, trade, maritime and professional services centre. The Government will continue to encourage the Mainland and other Belt and Road economies to leverage on our strengths, including our professional services and talent.

94. The Policy Address indicated support for the development of a dispute resolution online platform by non-governmental organisations (NGOs) to enhance the development of LawTech in Hong Kong and consolidate Hong Kong's position as an international dispute resolution services centre. The NGO concerned is preparing for the development of a cross-boundary, efficient, secure and cost-effective platform for the provision of online arbitration and mediation, as well as smart contract and related services. I will provide \$150 million to support the development and initial operation of the platform. The platform will benefit local micro-enterprises and SMEs, as well as those in the Belt and Road economies, members of the ASEAN and beyond, and facilitate deal making as well as dispute avoidance and resolution.

The Government's Role

95. The Government strives to expand our market coverage to create business opportunities for enterprises. In the past year, we continued to expand our Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement networks to provide protection for Hong Kong businesses to explore markets and invest in outside markets, and for foreign businesses to do the same in Hong Kong. Hong Kong has signed three FTAs with 12 economies since this term of Government took office. Our FTA negotiations with Australia and the Maldives were concluded last year. Our discussions with the UK on the proposals for closer economic ties are underway. We are exploring an FTA with the four members of the Pacific Alliance (namely Chile, Colombia, Mexico and Peru). We also plan to seek accession to the Regional Comprehensive Economic Partnership after completion of negotiations between ASEAN and relevant economies.

96. We have also been actively expanding our network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) to enhance our business environment and draw in investment. Taking into account the CDTAs concluded with India and Finland last year, we have already signed CDTAs with 40 tax jurisdictions, of which 13 are among Hong Kong's major trading partners and are accounting for 73 per cent of our total value of trade in 2017. Our target is to bring the total number of our CDTAs to 50 in the next few years.

97. The Government is also committed to expanding its Economic and Trade

Office (ETO) network to strengthen external promotion, thereby exploring new business opportunities for Hong Kong enterprises. At present, the Government has two ETOs in ASEAN, one in Jakarta and the other in Singapore. With the establishment of the Bangkok ETO, we will forge stronger economic and trade ties with ASEAN. We are making good progress in our negotiations with the United Arab Emirates government to set up the Dubai ETO. We will also continue our discussion with the governments of India, Korea and Russia on the detailed arrangements for setting up ETOs in their territories.

Building Capacity

98. Looking ahead, we should be more proactive in diversifying the economy and extending market coverage so as to offer more opportunities for our young people. I believe capacity constraints are the obstacles hindering the development of emerging industries and a diversified economy in Hong Kong. A large pool of talent with innovative capabilities will be required to develop such talent-intensive industries as I&T. Also, land will be required to support emerging economic activities. We will continue to introduce measures to overcome these obstacles and build capacity for the sustainable economic development of Hong Kong. I will elaborate on the Government's measures to develop other industries, produce land and build capacity later in my speech.

(To be continued.)

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Pooling Innovation and Technology Talent

76. In the face of keen global competition for technology talent, we introduced the Technology Talent Admission Scheme in June last year to expedite the admission of such talent to undertake R&D activities in Hong Kong. Participating enterprises are required to employ local employees and interns concurrently. So far, over 200 places have been approved under the scheme. We will review the implementation details of the scheme in the first half of this year.

77. The Researcher Programme has so far sponsored over 3 700 local graduates to join the I&T industry. The Postdoctoral Hub Programme launched last year has also sponsored over 350 postdoctoral talents to pursue a career in R&D. To attract more local graduates to the industry, we will increase, with immediate effect, the monthly allowance from \$16,000 to \$18,000 for researchers with a Bachelor's degree, and from \$19,000 to \$21,000 for researchers with a Master's degree. We will also extend the funding period of both the Researcher Programme and the Postdoctoral Hub Programme from two

years to three years with immediate effect. This means R&D institutes or enterprises can hire relevant R&D talents for three years which give them ample time for demonstrating their professional strengths in R&D projects.

78. Accommodation is an issue pertaining to the recruitment of researchers. The HKSTPC is constructing an InnoCell, which will offer about 500 residential units with flexible design to tenants, incubatees or visiting researchers in the Science Park. This project is expected to be completed by 2021.

79. To pave the way for nurturing local technology talents, we will also encourage the promotion of popular science education in schools. I will deploy \$500 million to implement the IT Innovation Lab in Secondary Schools Programme in the coming three school years. Each secondary school benefiting will be granted \$1 million to procure the necessary information technology (IT) equipment and professional services, and organise more relevant extra-curricular activities to deepen students' knowledge of cutting-edge IT, such as artificial intelligence, blockchain, cloud computing and big data, with a view to helping young people build a good IT foundation early during their secondary school years. In addition to financial support, the Office of the Government Chief Information Officer (OGCIO) will set up a one-stop professional support centre to provide assistance.

Supporting Technology Enterprises

80. Technology enterprises and start-ups in particular, are an integral component of the I&T ecosystem, with an important role in facilitating commercialisation and application of R&D results as well as developing innovative ideas. In 2014, we launched the Technology Start-up Support Scheme for Universities, which has so far supported 188 start-ups established by university teams to venture beyond their campus. Some of the funded start-ups have secured investment exceeding \$300 million. I will raise the maximum annual funding for each university from the existing \$4 million to \$8 million starting from 2019-20 to better nurture university start-ups.

81. Last year, I reserved \$7 billion for the HKSTPC to enhance support for its tenants and incubatees, with part of the funding dedicated to expand Incubation Programme. The programme has been well-received, with over 120 applications so far. Besides, the Corporate Venture Fund (CVF), launched by the HKSTPC in 2015, co-invests on a matching basis with angel investors or venture capital funds in tenants and incubatees of the Science Park. The CVF has already committed the entire fund of \$50 million to invest in nine projects and acted as a catalyst in attracting more than \$670 million from co-investors. Building on the success, the HKSTPC will expand the CVF to \$200 million to support the growth of its tenants and incubatees.

82. In last year's Budget, I injected \$200 million into Cyberport to enhance the support for its tenants and start-ups. In this connection, Cyberport has increased the financial subsidy under its incubation programme to \$500,000 and introduced the Overseas/Mainland Market Development Support Scheme to offer an additional subsidy of \$200,000. Moreover, Cyberport launched the

Easy Landing Scheme to attract multinational corporations to set up offices and R&D units in Cyberport through rental concessions.

83. To encourage private investments in local I&T start-ups, the Government set up the \$2 billion Innovation and Technology Venture Fund to co-invest in local I&T start-ups together with venture capital funds. We selected a total of six Co-investment Partners in mid-2018, and have been receiving co-investment proposals.

Promoting Re-industrialisation

84. The Policy Address proposed allocating an additional \$2 billion for the HKSTPC to build dedicated facilities required by the advanced manufacturing sector in industrial estates to facilitate more manufacturers to set up operations in Hong Kong. We plan to inject \$2 billion into the ITF for launching a Re-industrialisation Funding Scheme to subsidise manufacturers on a matching basis to help them set up smart production lines in Hong Kong. These initiatives for developing real high-end production will help reduce our economy's over-reliance on service industries. The Innovation and Technology Bureau (ITB) will seek funding approval from the Legislative Council (LegCo) as soon as possible, with a view to implementing these initiatives in the second half of this year.

85. I visited five local R&D centres last year to see for myself their work on applied R&D. I am impressed with the immense potential Hong Kong has in pursuing the commercialisation of R&D results and technology transfer in areas such as advanced materials, nanotechnology, microelectronics, etc. which can boost the development of industries and re-industrialisation. The Committee on Innovation, Technology and Re-industrialisation, which I chair, will explore appropriate measures for promoting the development in this regard.

Other Supporting Measures

86. The Government is striving to remove unnecessary constraints for I&T development and create more opportunities for the procurement of I&T products and services. We will introduce a pro-innovation government procurement policy this April so that innovative proposals stand a better chance of winning government contracts. The Policy Innovation and Co-ordination Office has started reviewing existing laws which are outdated and impede I&T development.

The Way Forward

87. We are now in an excellent position to promote I&T development, and are presented with unprecedented opportunities arising from the Greater Bay Area development. From the perspective of regional development, with our strong R&D capabilities, world-class universities, advantages as an international and market-oriented economy and robust intellectual property protection regime, Hong Kong serves as an I&T pioneer in the region. On the other hand, with a sizeable market, the Greater Bay Area offers more cooperation

opportunities for local I&T enterprises as well as capabilities in commercialising R&D results and advanced manufacturing. We can promote technological collaboration, interaction among industries and productisation of scientific and technological achievements, thereby facilitating the development of the Greater Bay Area into an international I&T hub.

88. Financial services and I&T aside, the Government will also roll out measures in other economic sectors to promote the development of industries. I will talk about these measures later.

(To be continued.)

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Innovation and Technology

64. The development of I&T will bring huge economic benefits to Hong Kong. The intellectual property so generated can be commercialised to drive ancillary economic activities, thus creating quality employment opportunities and enabling people to live comfortably by adopting new technology.

65. The current-term Government spares no effort in promoting I&T development, focusing on four areas, namely biotechnology, artificial intelligence, smart city and Fintech. I have allocated sufficient resources, with a commitment of over \$100 billion so far.

66. To develop I&T, we need a robust ecosystem and the Government aims to establish through various I&T policy initiatives. We have stepped up support for the scientific research and I&T sectors by developing I&T infrastructure, promoting research and development (R&D), pooling talent, supporting enterprises and promoting re-industrialisation. All these efforts have brought significant enhancements to the local I&T ecosystem.

Developing Innovation and Technology Infrastructure

67. "One cannot make bricks without straw". We need quality infrastructure to attract I&T talent, and facilitate the operation of I&T enterprises. In last year's Budget, I allocated \$3 billion to the Hong Kong Science and Technology Parks Corporation (HKSTPC) for constructing R&D infrastructure and facilities such as laboratories. The construction of some facilities has commenced and they will gradually come into operation. Meanwhile, Stage 1 of the Science Park Expansion Programme is also underway. It will provide an additional floor area of around 74 000 square metres upon its scheduled completion this year.

68. The HKSTPC is also working in full swing to develop a Data Technology Hub and an Advanced Manufacturing Centre in Tseung Kwan O Industrial Estate to support and promote smart production activities and high-end manufacturing industries which have great demand for data services. The two projects are expected to be completed in 2020 and 2022 respectively.

69. Meanwhile, Cyberport has built a digital technology ecosystem with over 1 200 companies and start-ups, and nurtured over 500 start-ups after years of growth. I will earmark \$5.5 billion for the development of Cyberport 5. This will serve to attract more quality technology companies and start-ups to set up their offices in Cyberport and provide a pathway for young people to pursue a career in I&T. The expansion project is expected to provide about 66 000 square metres of floor area, and include facilities such as offices, co-working space, conference venues and data service platforms. We will proceed with the statutory town planning procedures with a view to commencing construction in 2021 for completion in 2024 at the earliest.

70. The Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop will become the basecamp for I&T development in Hong Kong. In last year's Budget, I set aside \$20 billion for the Park's first stage construction works, which is now in good progress. Our target is to make the first batch of land available by 2021 for Phase 1 superstructure development. The Park will provide essential infrastructure for the sustainable I&T development in Hong Kong. I will allocate additional resources to ensure timely development of the Park as a world-class R&D hub.

Promoting Research and Development

71. R&D is the foundation of the development of I&T. Hong Kong enjoys a unique edge in this area. To promote local R&D activities, we injected \$10 billion into the Innovation and Technology Fund (ITF) last year to support the continued operation of existing ITF funding schemes and introduce various new initiatives. Furthermore, the Policy Address announced the injection of \$20 billion into the Research Endowment Fund of the Research Grants Council under the University Grants Committee (UGC) to provide sufficient funding.

72. The Government has provided funding of \$10 billion to establish two innovative clusters in the Science Park, namely "Health@InnoHK" focusing on healthcare technologies and "AIR@InnoHK" focusing on artificial intelligence and robotics technologies. The two clusters give us an edge in pooling top-notch local, Mainland and overseas universities, scientific research institutions and enterprises to undertake R&D activities together. They can also seek research funding from the ITF. A number of leading universities like Harvard University, Stanford University, Imperial College London, University College London and Johns Hopkins University have expressed interest in joining the two clusters and collaborating with local universities.

73. In respect of applied R&D, funding for Technology Transfer Offices of designated universities, the Technology Start-up Support Scheme for

Universities, State Key Laboratories and Hong Kong branches of the Chinese National Engineering Research Centre will be doubled to support more R&D work and the realisation of R&D results. An additional sum of not less than \$800 million will be provided over five year starting from 2019-20.

74. Technology enterprises are essential drivers of a technology-based economy. To encourage more enterprises to engage in R&D in Hong Kong, the Government has provided a two-tiered enhanced tax deduction for eligible R&D expenditure of enterprises incurred after 1 April 2018.

75. Scientific exploration and academic research in universities lay the foundation for Hong Kong's I&T development. I will set aside a dedicated provision of \$16 billion for UGC-funded universities to enhance or refurbish campus facilities, in particular the provision of additional facilities essential for R&D activities (such as laboratories), with a view to creating an optimal teaching and research environment for university students and R&D staff. I hope that universities will, in developing or enhancing hardware, give due and priority consideration to I&T needs to ensure that their teaching and research facilities can meet the objective of nurturing I&T talent.

(To be continued.)

Budget Speech by the Financial Secretary (5)

Mutual Market Access

48. Apart from developing Hong Kong's capital markets, we have also been actively promoting mutual access with the Mainland. This will not only benefit our financial services industry, but also contribute to the two-way opening-up of the Mainland market to the world. The Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Bond Connect as well as the Mutual Recognition of Funds Arrangement are important milestones of mutual access between the capital markets of Hong Kong and the Mainland. We will continue our efforts to increase the quotas for and expand the scope of mutual access as well as extend the Bond Connect to cover southbound trading.

49. The weighting of China A-shares in various international indices has been increasing since its inclusion into MSCI, FTSE Russell, etc. in 2018. Rising international investment inflows into the Mainland's capital markets will help enhance Hong Kong's role as an offshore intermediary risk management centre for the Mainland's capital markets, thereby promoting the development of more financial products and services.

Wealth and Asset Management Industry

50. Hong Kong has an unparalleled edge in developing asset management business. We are one of the leading international wealth and asset management centres in Asia. In 2017, the total value of asset managed by Hong Kong's asset management industry amounted to over \$24 trillion. Over 200 public funds were approved for distribution in Hong Kong last year. The Greater Bay Area development will bring enormous business opportunities for Hong Kong.

51. In recent years, private equity funds are developing rapidly in the global market, drawing in the capital, talent and expertise necessary for the business development of a large number of business entities, technology companies and start-ups, while driving demand for related professional services such as management, accounting and law. The related economic activities brought by the operation of private equity funds also create business opportunities in the service industry, in particular conference and exhibition, hotel, and tourism.

52. Following the implementation of the open-ended fund company regime in July 2018, we are now studying the establishment of a limited partnership regime for private equity funds, with a view to providing the industry with more fund structure choices. We will also study the case of introducing a more competitive tax arrangement to attract private equity funds to set up and operate in Hong Kong.

53. Starting from 1 April this year, different types of onshore and offshore funds meeting certain conditions will be eligible for profits tax exemption. As regards fund distribution channels, following the agreements with the Mainland, Switzerland, France, the UK and Luxembourg, we will continue our work on mutual recognition of funds arrangements with other jurisdictions to broaden the distribution network of local fund products.

A Hub for Regional Headquarters

54. Having more enterprises outside Hong Kong to establish their regional headquarters here will help consolidate Hong Kong's status as an international financial centre and expand the size of our treasury market. Last year, the total number of companies with regional headquarters in Hong Kong increased to over 1 500, representing a year-on-year growth of over eight per cent. Besides, more and more Mainland enterprises have chosen Hong Kong as the platform for their businesses to go global.

55. Given that many multinational corporations co-locate their corporate treasury centres (CTCs) with their regional headquarters, we have been offering tax concessions to qualifying CTCs since 2016. The Government will continue to enhance the relevant tax measures to strengthen our competitiveness.

Insurance Industry

56. Hong Kong's insurance industry is well-developed and is an integral part of our diversified financial businesses. We are committed to promoting Hong Kong's role as an international risk management centre and helping the industry seize the business opportunities brought by the Greater Bay Area development and the Belt and Road Initiative.

57. In fact, businesses such as captive insurance, reinsurance and marine insurance have considerable development potentials in Hong Kong. To promote their development, we have introduced relevant taxation and regulatory measures. For example, last year we amended the legislation to extend the 50% tax concession for captive insurance companies' businesses to cover both offshore and onshore risks, with a view to drawing more enterprises to set up captive insurance companies in Hong Kong. Moreover, the Government will propose legislative amendments to provide tax concessions for marine insurance and the underwriting of specialty risks, and allow for the formation of special purpose vehicle companies specifically for issuing insurance-linked securities. We will continue to look into measures that are conducive to the development of the industry.

Financial Technologies

58. There are currently over 550 financial technologies (Fintech) companies in Hong Kong with wide business coverage. We have been keeping up our efforts to provide a conducive environment for Mainland and overseas Fintech companies and attract them to Hong Kong.

59. Last year saw significant progress in the application of Fintech. The Faster Payment System (FPS) and the Common QR Code Standard for Retail Payments launched by the Hong Kong Monetary Authority (HKMA) in September 2018 has received overwhelming response. The Government is planning for the use of the FPS to provide the public with greater convenience in paying taxes, rates and water charges. The Transport Department, the Immigration Department and the Leisure and Cultural Services Department (LCSD) will examine the feasibility of accepting payments through the FPS at their shroff counters on a pilot basis.

60. The HKMA will shortly issue virtual banking licences. Banks will also implement the Open Application Programming Interface functions in phases. These will bring more innovative banking services to the public. The Insurance Authority (IA) also approved the first authorisation of virtual insurers last December, marking a new chapter for insurance technology development in Hong Kong.

61. On the regulatory front, the Securities and Futures Commission (SFC) announced a new regulatory approach for virtual assets in November 2018 with a view to exploring ways for encouraging market innovation while protecting investors. Moreover, the HKMA and the SFC are making use of the Global Financial Innovation Network to share with other regulators the experience and knowledge in relation to the supervision of Fintech applications.

Talent Training

62. In last year's Budget, I announced the establishment of the Academy of Finance, which will serve to pool the strengths of tertiary institutions, the financial services sector, professional training bodies and regulators so as to attain two major goals, namely nurturing financial leadership and encouraging applied research in cross-sectoral areas. The HKMA is taking the plan forward in full swing, with a view to establishing the Academy in mid-2019.

63. Apart from grooming local talent, we also encourage financial talent from outside to pursue their careers in Hong Kong through various talent admission schemes.

(To be continued.)

[Budget Speech by the Financial Secretary \(4\)](#)

Direction of Hong Kong's Economic Development

35. While we are amidst a new situation, new landscape and new norm of global politics and economies, we should maintain a clear and flexible mind, identifying the unique positioning of Hong Kong, grasping the opportunities, leveraging on and giving full play to our strengths.

Developing a Diversified Economy

36. Our economic development relies heavily on service industries. In particular, financial services, tourism, trading and logistics, and professional and business support services are the pillars of our economy and employment, collectively accounting for over 57 per cent of our GDP in 2017. These service industries share one thing in common, that is, they are highly susceptible to changes in the external economy. Any economic downturn in the major markets will deal a direct blow to these service industries and hence Hong Kong's economic outlook. As such, I believe Hong Kong should endeavour to diversify its economy. Apart from strengthening the industries currently enjoying competitive edges, we should identify new areas of growth by vigorously developing emerging industries. This will not only broaden the foundation of our economy, but also provide a wider range of quality employment opportunities for our young people to unleash their potential.

37. Owing to the lack of natural resources and high land and production costs, it is difficult for Hong Kong to revert to labour-intensive production industries or pursue land-demanding economic activities. We should therefore develop "talent-intensive" industries and focus on high value-added

activities.

38. A holistic strategy is needed for the development of industries. We must recognise our positioning, strengths and weaknesses, and leverage Hong Kong's edges by utilising resources and policy measures. I will illustrate this by elaborating on two major areas, namely financial services and I&T.

Financial Services Industry

39. Hong Kong is the third largest financial centre in the world, ranked high in areas such as stock market, asset management and banking. We have a stable and flexible capital market with ample liquidity, free flow of capital, commodities and information, a wealth of talent, a sound legal system and an independent judiciary. These are the key attributes underpinning our success.

40. However, to cope with the increasing competition, we have set out a clear vision and blueprint for boosting the development of Hong Kong's financial services industry. Apart from deepening and widening our financial markets, we need to further strengthen Hong Kong's role as a bridge linking the Mainland with the international market. We should not only seize the opportunities brought by the Greater Bay Area development and the Belt and Road Initiative, but should also eye on the world, particularly the Asian regions with potential for development. Moreover, we have to enhance the resilience of our financial system, further improve our regulatory regime to strengthen financial security, and increase investor confidence and protection.

41. We have been introducing reforms in various areas and made considerable progress. Aside from consolidating our strengths, we have developed new competitive edges to further enhance the overall competitiveness of our financial services sector.

Stock and Bond Markets

42. Hong Kong's capital markets are thriving. To enhance our attractiveness to the new economy sector, the Stock Exchange of Hong Kong launched a new listing regime last April, under which emerging and innovative enterprises with weighted voting rights structure, as well as pre-revenue or pre-profit biotechnology companies, are allowed to list in Hong Kong. By end-2018, seven enterprises had listed in Hong Kong under the new regime. Last year, we raised a total of \$286.5 billion through initial public offerings, the highest in the world for the sixth time over the past decade.

43. The Government has introduced a host of measures to promote the development of Hong Kong's bond market. These include launching the Pilot Bond Grant Scheme to encourage enterprises to issue bonds in Hong Kong, as well as offering tax concessions to attract more investors to our bond market.

44. To improve the quality of listed companies, legislation was enacted in

January this year to expand the remit of the Financial Reporting Council (FRC), enhance the independence of the regime for auditors of listed entities and strengthen investor protection. I have decided to increase the amount of seed capital for the FRC to \$400 million to help it migrate to the new regime, and exempt the levy under the new regime for the first two years.

Green Finance

45. There is now a global shift towards sustainable development. To promote the development of green finance in Hong Kong and diversification of related products, the Government rolled out the Green Bond Grant Scheme last year to attract organisations to arrange financing for their green projects through our capital markets and encourage them to make use of the green finance certification services in Hong Kong. We are glad to see that many local, Mainland and even international organisations, such as the World Bank, the Asian Development Bank and the European Investment Bank, have chosen to issue green bonds in Hong Kong. Last year, green bonds issued in Hong Kong amounted to some US\$11 billion, more than triple that of 2017. Besides, we are gearing up for the inaugural issuance of government green bonds and will encourage the relevant sectors to incorporate green elements into corporate governance and operation in a more effective manner.

Offshore Renminbi Business

46. Hong Kong is a global offshore Renminbi (RMB) business hub and the world's largest offshore RMB liquidity pool, processing more than 70 per cent of RMB transactions globally. We are also one of the busiest RMB foreign exchange trading centres. With the advantages of well-established market system and financial infrastructure, close ties with the Mainland market and the support of the Central Government, Hong Kong is set to become a premier platform for international investors to access the Mainland market and allocate RMB assets.

47. In collaboration with the industry and the Mainland authorities, we will continue to explore expansion of the channels for two-way flow of cross-boundary RMB funds. This will give us further room for exceling our distinct role in the Mainland's gradual liberalisation of the capital account, internationalisation of RMB and integration with global financial markets. We will continue to contribute to our country in opening up its financial market in an orderly manner.

(To be continued.)