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25 January 2007

Hon Chan Kam-lam
Chairman
The Panel on Financial Affairs
Legislative Council
Hong Kong Special Administrative Region of the People's Republic of China
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Mr Chan,

**Review of the minimum and maximum relevant income levels for
Mandatory Provident Fund contributions**

We refer to your letter of 10 January 2007 inviting the Employers' Federation of Hong Kong to attend the special meeting and to express views on the above.

The Federation has no objection to the proposed increase of the maximum income level to extend the coverage of the MPF system. Periodical reviews of the relevant income levels as stipulated in the Section 10A of the Mandatory Provident Fund Schemes Ordinances will ensure the effectiveness of the system in securing retirement benefits of employees concerned. Among the 48 member companies that responded to our survey on the said matter, over 70% of them consider this very first adjustment since inauguration of the MPF system acceptable. It is believed that more adequate retirement protection will be provided for employees earning between \$20,001 and \$30,000 and thus will be in the long term interest of employees particularly in view of population ageing.

There are however some different views on the range of increase. A 50% upward adjustment will inevitably pose additional financial burdens both on employers and employees, and the implications vary among different companies. Some industries, and also many SMEs, have yet to benefit from the current healthy economy, and may find difficulty in budgeting for the extra payroll costs. We feel in future that it may be better to make adjustments more regularly and thus more gradually.

Should you need any clarification, please feel free to contact me at 2528 0712.

Yours sincerely,



Louis Pong
CEO