

立法會
Legislative Council

LC Paper No. CB(1)976/09-10
(These minutes have been seen
by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 7 December 2009 at 9:00 am
in the Chamber of the Legislative Council Building

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon James TO Kun-sun
Hon Emily LAU Wai-hing, JP
Hon Vincent FANG kang, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Starry LEE Wai-king
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon CHAN Tanya
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Members attending : Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon IP Wai-ming, MH
Dr Hon PAN Pey-chyou

Members absent : Dr Hon Philip WONG Yu-hong, GBS
Hon Abraham SHEK Lai-him, SBS, JP

Public officers attending : Agenda Items IV and V

Mr John TSANG, JP
Financial Secretary

Mr Freely CHENG
Administrative Assistant to Financial Secretary

Agenda Item IV

Mrs Helen CHAN, JP
Government Economist

Agenda Item V

Prof K C CHAN, SBS, JP
Secretary for Financial Services and the Treasury

Mr Stanley YING, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Agenda Item VI

Mr John LEUNG, JP
Deputy Secretary for Financial Services and the Treasury
(Financial Services) 3

Mr E T O'CONNELL, JP
Official Receiver

Ms May LEE
Assistant Official Receiver (Legal Services) 2

Clerk in attendance: Ms Rosalind MA
Chief Council Secretary (1)5

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)4

Ms Haley CHEUNG

Action

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)526/09-10 — Minutes of meeting on 2 November 2009)

The minutes of the meeting held on 2 November 2009 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)220/09-10(01) — Securities and Futures Commission (SFC)'s press release dated 30 October 2009 on further changes proposed to regulation of structured products

LC Paper No. CB(1)220/09-10(02) — SFC's consultation paper on "Possible reforms to the prospectus regime in the Companies Ordinance and the offers of investments regime in the Securities and Futures Ordinance

LC Paper No. CB(1)296/09-10(01) — Hon Albert CHAN's letter dated 13 October 2009 on termination of bank accounts of remittance agents

LC Paper No. CB(1)296/09-10(02) — Administration's response to Hon Albert CHAN's letter dated 13 October 2009

LC Paper No. CB(1)487/09-10(01) — Hon Ronny TONG's letter dated 2 November 2009 setting out his concern about progress of the investigation of the alleged breaches of the Listing Rules by the CITIC Pacific Limited

LC Paper No. CB(1)487/09-10(02) — Administration's written response to Hon Ronny TONG's concern

- LC Paper No. CB(1)532/09-10(01) — Letter dated 30 November 2009 from the Chief Executive Officer of Hong Kong Deposit Protection Board (HKDPB) (English version only)
- LC Paper No. CB(1)532/09-10(02) — Report on the public consultation on strengthening the operation of the Deposit Protection Scheme
- LC Paper No. CB(1)532/09-10(03) — Press release issued by HKDPB on the report
- LC Paper No. CB(1)555/09-10(01) — Hon Ronny TONG's letter dated 20 November 2009 on the Hong Kong Exchanges and Clearing Limited (HKEx)'s consultation paper on acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong (Chinese version only)
- LC Paper No. CB(1)555/09-10(02) — Submission dated 27 October 2009 on HKEx's consultation paper on acceptance of Mainland accounting and auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong from the Professional Commons to HKEx (English version only)
- LC Paper No. CB(1)556/09-10(01) — Hon CHAN Kam-lam's letter dated 27 November 2009 to the Secretary for Financial Services and the Treasury on issues relating to the share price of Asian Citrus Holdings Limited (Chinese version only)
- LC Paper No. CB(1)559/09-10(01) — Hon Mrs Regina IP's letter dated 27 November 2009 setting out her further questions on the operation of the Hong Kong Mortgage Corporation Limited (English version only)

LC Paper No. CB(1)554/09-10(01) — Administration's information paper on permanent redeployment of one Chief Assessor post from Unit 2 to the Headquarters Unit in the Inland Revenue Department)

2. Members noted the information papers issued since the last regular meeting on 2 November 2009.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)528/09-10(01) — List of outstanding items for discussion

LC Paper No. CB(1)528/09-10(02) — List of follow-up actions)

Meeting in January 2010

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 4 January 2010:

- (a) Companies Ordinance rewrite;
- (b) To abolish the case stated procedure as stipulated in section 69 of the Inland Revenue Ordinance (Cap. 112) and to empower the Board of Review to impose pre-hearing directions and sanctions for non-compliance; and
- (c) Proposal to revise fees and charges for services not directly affecting people's livelihood under the purview of the Treasury Branch.

Issues relating to the listing of Asian Citrus Holdings Limited

4. Ms Starry LEE referred to her letter tabled at the meeting concerning the share price movements on the day of listing of Asian Citrus Holdings Limited. Ms LEE requested that the Administration and the regulators be invited to a meeting of the Panel to explain the relevant issues. Mr James TO shared Ms LEE's concern and supported her request. The Chairman said that he had written to the Administration raising questions on the subject, and would circulate the Administration's response for members' information once this was available. Mr Jeffrey LAM said that as far as he understood, the Securities and Futures Commission (SFC) was in the process of making enquiries and collecting information on the trading of Asian Citrus Holdings Limited on its debut trading day in Hong Kong. Mr LAM was of the view that the subject could be arranged for discussion at a Panel meeting sometime later when the preliminary findings of SFC's investigation were available.

5. Members agreed that a special meeting be arranged to discuss issues relating to the listing of Asian Citrus Holdings Limited, and representatives from the Financial Services and the Treasury Bureau, SFC and the Hong Kong Exchanges and Clearing Limited be invited to attend the meeting and provide information to facilitate the discussion.

(Post-meeting note: With the concurrence of the Panel Chairman, a special meeting was arranged on 21 December 2009 to discuss the issues relating to the listing of Asian Citrus Holdings Limited. Members were informed of the meeting arrangements vide LC Paper No. CB(1)657/09-10 on 11 December 2009.)

IV Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)379/09-10 — Third Quarter Economic Report 2009 and the press release

LC Paper No. CB(1)528/09-10(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

Briefing by the Administration

6. At the invitation of the Chairman, Financial Secretary (FS) gave a brief introduction on the risks and challenges facing the economy of Hong Kong amid the global financial crisis, and progress of Government measures to cope with the challenges. Although the downside risks facing the global economy were gradually receding, economic fundamentals in the United States (US) and European countries remained weak. It was thus too early to judge whether the global financial crisis was fully over. The Dubai World incident was a timely reminder of the potential risks and volatility in the global financial markets. FS further pointed out that while the local segments in the economy fared quite well in recent period, sluggish external demand continued to pose a drag on the local economy. That domestic demand was able to hold steady despite the severe shocks from the external environment reflected, on one hand, better fundamentals of the economy, and, on the other hand, the cushion rendered by the several rounds of relief packages of the Government. Indeed, it was encouraging to see unemployment rate edging down progressively in recent period, in tandem with the generally more positive attitude of employers in hiring new hands.

7. FS said that employment would usually lag behind economic recovery, and as such the Government would continue to adopt the strategy of stabilizing the financial markets, supporting enterprises and preserving jobs until the recovery process was firmly in place and employment turned visibly better. To provide the conditions for economic recovery, the Government had already announced an extension of the

period of the enhanced loan guarantee schemes to June 2010. Under the two special loan guarantee schemes, about 15 300 enterprises had already been granted loans amounting to \$63.6 billion, thus indirectly protecting some 270 000 jobs for the employees which these enterprises hired. Turning to the near term outlook, FS expected the economy to resume positive year-on-year growth in the fourth quarter of 2009. But he also warned that while the economy was poised to return to positive annual growth in 2010, the recovery path could be uneven in face of the still considerable risks and uncertainties in the external environment. The Government would continue to stay vigilant to the global economic development, and take appropriate measures to deal with the challenges. He further cautioned market participants and investors to exercise prudence in managing the risks in their investments.

8. At the invitation of the Chairman, Government Economist (GE) gave a powerpoint presentation on the latest developments in the Hong Kong economy, the updated economic forecasts for 2009 as a whole and the economic outlook for 2010. The salient points highlighted in the presentation were as follows:

- (a) The Hong Kong economy had entered the nascent stage of recovery. The Gross Domestic Product (GDP) expanded further by 0.4% in the third quarter of 2009, after a notable rebound in the second quarter, leading to a further tapering of the year-on-year decline from 3.6% to 2.4%. Total exports of goods continued to fall notably by 13.2% in real terms year-on-year in the third quarter of 2009. Export of services showed a more visible improvement in the same quarter, expanding by 4.6% quarter-to-quarter. Local consumer sentiment revived further in the third quarter of 2009, with private consumption expenditure expanding further by 0.5% quarter-to-quarter and returning to positive year-on-year growth of 0.2%.
- (b) Overall investment spending revived to a small increase of 1.4% in the third quarter over a year earlier. This was driven by a 34.4% surge in public sector construction work. Business sentiments turned up distinctly in the third quarter of 2009, with the latest Quarterly Business Tendency Survey results showing the first positive net balance on near-term business prospect since the global financial crisis last year. Inflationary pressure basically subsided. The underlying consumer price inflation turned slightly negative in July, and held steady at -0.3% from July to October 2009.
- (c) The labour market showed signs of improvement after a period of successive worsening since late 2008. The seasonally adjusted unemployment rate showed the first decline in the third quarter of 2009 since the onset of the global financial crisis, and edged down further to 5.2% in August to October 2009.

- (d) Amidst the low interest rate environment consequential to the quantitative easing around the world, and boosted further by signs of recovery in the global economy, the earlier market risk aversion sentiment had subsided considerably, leading to a continued inflow of funds into the Asian asset markets. The Hong Kong stock market had seen a strong rebound since March 2009, and rallied further in the third quarter of 2009. The recent Dubai World incident sounded a warning to the world that the global financial crisis was not yet over, and the financial markets would remain volatile. As far as residential property prices were concerned, the prices of small/medium-sized flats in September were only around 3% higher than the peaks in 2008, while those for large flats were broadly the same. The home purchasing affordability notched up to 36.5% in the third quarter of 2009, yet still notably lower than the 20-year average of 52.6%. The level of speculative activities in the first nine months of this year was still slightly lower than the average in the past five years, indicating that the market was largely end-user led.
- (e) GDP for 2009 as a whole was forecast to contract by 3.3% in real terms, revised up from the earlier forecast decline of 3.5% to 4.5% in August 2009. While the Hong Kong economy was poised to return to positive growth in 2010, the pace and strength of the recovery were still subject to considerable uncertainties, especially when the advanced economies currently were still being single-handedly supported by large fiscal measures. The "toxic assets" in the US and European financial systems, the deleveraging process that was needed to restore health in the banking sector, the timing and pace of exit strategies by the governments of major economies, and the potential rise in protectionism were the key risk factors that had to be closely watched over.

Discussion

Economic recovery and inflationary pressure

9. Mr Jeffrey LAM remarked that while Hong Kong had fared well in meeting the challenges of the global financial crisis with the packages of relief measures, the economic recovery was still subject to the risks of external factors, such as the strategies of US and European governments to exit from quantitative easing. Mr LAM enquired about the measures to facilitate a smooth economic recovery for Hong Kong.

10. FS advised that being a small and externally-oriented economy, the economic recovery of Hong Kong would inevitably be affected by external factors. The Government would monitor closely the evolving situation of the global economy and financial markets, including the exit strategies of the overseas governments from quantitative easing. Responding to Mr LAM's further concern about public

consultations by SFC on the sale of investment products, FS advised that SFC had launched public consultation on proposals to enhance investor protection, having regard to lessons learnt in the Lehman Brothers incident. FS said that appropriate measures would be introduced taking into consideration best international practices and responses from the investing public and market players.

11. Mr Jeffrey LAM and Ms Starry LEE expressed concern about the impact of the recent Dubai World incident on the economic development of Hong Kong, notably on the pace for development of Islamic finance and on the investment returns of Mandatory Provident Fund funds arising from market volatilities.

12. FS advised that while the Dubai World incident had wide repercussions on the global economy, its impact on the local banking sector would be very small, as the banks' exposure to Dubai World-related business was only about 0.1%. The Government would closely monitor the impact of the incident on Hong Kong's economy, notably the possible impacts on investors' sentiment and confidence. Investors should stay alert of the asset markets volatilities and be prudent in their investments. The Government would take forward the plans for development of Islamic finance in Hong Kong having regard to the impact of the Dubai World incident on the Islamic markets.

13. Mr Andrew LEUNG expressed concern about the surge in asset prices as a result of capital inflow, and enquired about measures to be taken by the Government in face of the possible inflationary pressure, and strategies for exit from quantitative easing adopted by overseas governments. Mr WONG Ting-kwong shared Mr LEUNG's concern about measure to tackle the inflation problem, in light of recent increase in public utility charges.

14. FS said that Hong Kong being an international financial centre had in place sound and robust financial infrastructure and regulatory regime to cope with the inflow and outflow of capital. The real challenge was how to contain the risks of asset market bubble arising from massive capital inflows into the economy. The key indicator to watch was loan growth, because asset market inflation was usually accompanied by excessive leveraging and hence substantial credit growth. On this, aggregate loans were still lower than a year earlier, and the loan-to-deposit ratio was actually lower than the level just before the global financial crisis. From this angle, signs of asset market bubbles were not that apparent right now. But the risks were building up, as the abundance of liquidity due to quantitative easing had led to a surge in asset prices in many Asian markets and Hong Kong was no exception. The Government would monitor closely the developments and take appropriate measures to contain the risk of asset price bubbles. In particular, the measures introduced by the Hong Kong Monetary Authority to tighten up mortgages for the very luxury end had been quite effective in stabilizing the property market. Once again, FS cautioned market participants and investors to pay attention to the risks in asset markets when liquidity was withdrawn by Central Banks around the globe. As to the risk of inflation hike in 2010, FS said that given the expected slow pace of global economic recovery, overall inflation in next year was likely to be still rather contained.

15. Responding to Mr Andrew LEUNG's further enquiry, FS said that the Government had noted the liquidity problem faced by SMEs and had extended the enhanced loan guarantee schemes for SMEs for half a year until June 2010. The Government would keep in view the financial and economic development and consider the need for any further measures nearer the time.

16. Mrs Regina IP asked whether the strong side Convertibility Undertaking (CU) introduced under the refinements of the Linked Exchange Rate (LER) system, in 2005 would be reviewed so as alleviate the impact of capital inflow and the weakening US dollar on the value of Hong Kong dollar. She was of the view that this might also help curb the inflationary pressures on the economy of Hong Kong. In reply, FS explained that the refinements of the LER system with introduction of the strong side and weak side CUs had helped maintain monetary stability during market volatilities in the recent years. Such refinements would not have any impact on inflation.

Property market

17. Referring to recent reports about high transaction prices for luxury flats, Mrs Regina IP was concerned that the inflow of hot money to the property market had caused surge in prices of residential properties. Such escalation of property prices would have advert impact on the affordability of middle-income households to purchase their homes, and also increase the risks of asset price bubbles. Mrs IP enquired about measures to tackle the problem and prevent the formation of asset price bubbles. The Deputy Chairman expressed similar concern.

18. FS advised that abundance of liquidity under quantitative easing was in fact much needed to pull the global economy from the brink of the most severe recession in recent history. It had helped relieve the pressure of credit crunch, and had contributed to the global economic recovery, and Hong Kong benefited as a result. But the side effects were the risks of asset market inflation. On this, FS pointed out that there were no obvious signs of huge asset market bubble at present, because total bank loans were still 5% down when compared with the year before, the affordability of average households in purchasing property remained better than the 20-year average, and the Hang Seng Index was still some 30% lower than the peak in late 2007. The Government and the financial regulators would nevertheless stay vigilant to the risk of asset market bubble, keep a close watch-over on market developments and would take appropriate countervailing prudential measures as necessary to contain such risks.

19. The Deputy Chairman and Mr LEE Wing-tat were concerned that amendments of the Stamp Duty Ordinance (Cap. 117) in 1999 enabling property buyers to defer payment of stamp duty had in effect facilitate speculative activities in luxury flats and benefit those engaging in speculative investments. The Deputy Chairman suggested that consideration be given to revising the Stamp Duty Ordinance to say, setting a cap on the prices of properties eligible for deferred

payment of stamp duty so that only buyers of middle or smaller-sized flats could enjoy such arrangement.

20. FS advised that under the existing legislation, buyers of all types of property could opt for deferred payment of stamp duty. He noted Members' views on the existing arrangement for further consideration.

21. Mr LEE Wing-tat expressed concern that although the Government maintained that asset prices were still stable, many people such as the newly wedded and fresh graduates had difficulties in purchasing their homes. Mr LEE asked whether more detailed information and analysis of the prices of different categories of residential properties could be provided. Mr LEE was also concerned that the payment plans offered by property developers included different forms of loans to attract purchasers, increasing the total loan-to-value ratio above the 70% limit and hence might increase the risk of problematic loans.

22. FS said that the recent property price surge was in part driven by very low interest rate, although the market was generally healthy at the present stage. As such, he cautioned that while the home purchasing affordability (i.e. the ratio of medium household income to mortgage payment for a 45-square metre flat) remained rather low when compared to the 20-year average, it could worsen considerably if mortgage rates were to rise back to a more normal level. Hence, prospective home buyers should pay attention to the risk of a sudden upsurge in their monthly mortgage payment when excessive liquidity was taken away from the global financial markets.

Wealth gap

23. The Deputy Chairman remarked that a higher GDP did not necessarily reflect that the standard of living of the general public had improved. He requested that FS's briefing should include statistics on the income disparity between the rich and the poor.

24. Mr Albert CHAN opined that the Government had only reported the good signs of the economy, and dismissed lightly the economic challenges faced by Hong Kong. Despite the Government's reports on reduction of the unemployment rate and number of the Comprehensive Social Security Assistance recipients, many people in the low-income groups were still facing much financial hardship. Mr CHAN opined that FS should include in his briefing a report and analysis of the situation of the low-income households, such as statistics on the number of these living in property and the Gini Coefficient.

25. In response, FS said that the Government was concerned about the wealth gap and the welfare of the underprivileged. FS pointed out that in addition to the safety net to cater for the basic needs of the underprivileged, measures had been implemented in areas like education, housing, medical and social welfare to provide assistance to the needy and low-income groups. The resources allocated to these areas had increased considerably over the last ten years. Additional one-off relief

measures were also introduced to help the disadvantaged groups to tide over the difficulties of economic downturn. GE supplemented that while property market volatilities could affect owners' perception of their wealth, the major factors affecting consumer spending were their income, job security and confidence in the economy. GE pointed out that a regular update on the movement of household income was in fact provided in FS's regular briefings on the economic situation, with special focus on the income situation of the lower strata of the community. However, the calculation of the Gini Coefficient would require detailed and accurate statistics of income at the very top and very bottom end of the population, which could only be collected from population census once every five years.

26. Ms Emily LAU opined that an analysis on the disparity between the rich and the poor should be provided in FS's regular briefing, instead of merely highlighting the latest situation of household income. Noting that a recent survey revealed that the population of the low-income households was about 1.23 million, which was still on the rise, Ms LAU requested the Administration to provide analysis on the number of low-income households, so that Members could assess whether these households had really benefited from the economic recovery, and the actual situation of the wealth gap. Ms LAU questioned why the disparity between the rich and the poor continued to widen despite the resources allocated for education and training/re-training. The Administration should devise measures to tackle the problem of a widening wealth gap in Hong Kong.

27. FS reiterated that the Administration had provided Members with updated analysis on low income groups, including their short-term change and long-term trends, and their composition over time, in his regular briefings. GE added that due to the demographic phenomenon of ageing population, there was a visible increase in the number of retired elderly households in the past decade. The number of persons in the low-income households who were economically inactive had also increased from 1.3% to 1.7% of the total population, mainly due to the increase of single parent families and patients suffering from chronic disease. FS advised that the Government had allocated resources to tackle the problem of poverty and provide assistance to different groups in the community. In the long term, creating more job opportunities through promoting overall economic development should still be the most effective way to improve the livelihood of those in the low-income households.

28. Mr Albert HO was concerned about the increase in the number of low-income households. A survey conducted by the Hong Kong Confederation of Trade Unions revealed that while pay rise for executives had been significant in the past few years, there had been little pay increase for lower-skilled workers. Mr HO pointed out that based on "the users pay" principle, the low-income groups had to pay for certain social and medical services provided by the public sector. Mr HO opined that the Government should devise a taxation system which would enable a fair and effective re-distribution of wealth.

29. FS said that the increase in the number of low-income households in the third quarter of 2009 was mainly due to the global financial crisis and the resultant high

unemployment rate. The low-income groups could apply for waiver on fees and charges imposed on social and health services. The Welfare Services Panel would be consulted on various welfare measures to assist the low-income groups and the underprivileged.

Employment

30. Ir Dr Raymond HO said that the rate of economic recovery could be assessed based on the improvement in GDP, consumer sentiment and unemployment rate. Ir Dr HO was concerned that the unemployment rate had increased from 3.4% in the third quarter of 2008 to 5.2% in the third quarter of 2009, an increase of over 50%, and that for the construction sector stood at a even higher level of 7.9%. In addition to speeding up the implementation of the major infrastructure projects, Ir Dr HO opined that the Government should provide more support to the development of labour intensive capital works projects. Ir Dr HO pointed out that while over 100 projects and been submitted to the Public Works Subcommittee in 2008-2009, the Government had only submitted about 30 projects to the Subcommittee in the current session. Ir Dr HO called on the Government to devise a balanced and steady public works programme, so as to maintain a steady workload for the construction sector.

31. In response, FS said that the surge in unemployment rate in Hong Kong was part of a global phenomenon, and it was encouraging to see unemployment rate leveling off from 5.4% in the second quarter of 2009 to 5.2% in the third quarter of 2009. By comparison, the unemployment rates in the US and European countries were much higher, reaching double-digit levels over the same period. He pointed out that the Government's relief measures, measures to preserve jobs, and speeding up the small and medium sized construction projects had helped improve the employment rate of the construction industry by a significant extent. With the capital works expenditure from 2010 onwards expected to reach \$50 billion, this should help generate more employment opportunities for the construction sector, which in turn should help reduce the overall unemployment rate further.

32. Noting the significant rebound in exports of service in the third quarter, Ir Dr HO enquired about the source of growth in the third quarter and its near term outlook. In reply, GE said that one key source of growth in export of services in the third quarter came from the significant bounce-back in inbound tourism, after a temporary relapse in the second quarter caused by the Human Swine Influenza. Another major factor was the revival of exports of financial services in tandem with the increase in Mainland-related IPO activities in the quarter. But exports of trade-related services were still sluggish. Looking ahead, exports of services were likely to pick up further in the quarters ahead. While both inbound tourism and financial services should continue to benefit from the positive Mainland factor, the negative drag from external trade was also expected to recede progressively in tandem with the global recovery.

33. Ms Starry LEE pointed out that when the implementation of the major infrastructure projects entered their peak in the coming few years, the demand for

skilled workers and professionals in the construction industry would increase. On the other hand, Ms LEE was concerned about the high unemployment rate of young people. She enquired about the manpower planning strategy of the Government in meeting the needs of the construction sector, and creating jobs for youngsters.

34. FS pointed out that during the economic rebound between mid 2003 and mid 2008, the unemployment rate was able to come down successively and overall wages and salaries had also risen as a result. This highlighted the importance of sustained economic growth in generating jobs for our population, including the more vulnerable groups like the youngsters. As to the issue of ensuring our manpower could fit in well with the needs of the economy, FS said that the overall policy direction continued to rest with education, training and retraining. While he would ensure that adequate resources would continue to be devoted to education and training, the relevant bureaux would look into the manpower demand of individual sectors and assess the need to fine tune the Government's education, training and retraining programme accordingly.

V 2010-2011 Budget consultation

(LC Paper No. CB(1)528/09-10(04) — Information pack for the Financial Secretary's consultations on the 2010-2011 Budget)

Briefing by the Financial Secretary

35. At the invitation of the Chairman, FS gave a powerpoint presentation on the background information for the 2010-2011 Budget consultation. FS highlighted the following points:

- (a) On economic performance and prospects, the economy rebounded notably in the second quarter and then improved further in the third quarter. The unemployment rate edged down to 5.2% in August to October 2009. The several rounds of relief measures amounted to some \$87.6 billion, equivalent to 5.2% of GDP. Being a small and open economy, Hong Kong's well-being was inevitably affected by global fluctuations. The economy was forecast to contract by 3.3% for 2009 as a whole, and the headline inflation for 2009 as a whole was forecast to average 0.5%. The Government would follow the principle of "from welfare to self-help" in tackling poverty, creating job opportunities, mobilizing the business community to support social initiatives, and improving the livelihood of low-income groups and the disadvantaged.
- (b) On government expenditure, the total recurrent expenditure increased by some \$46.5 billion or 26% over the past 10 years. Spending on education, social welfare, health and security together accounted for 68.3% of total recurrent government expenditure in the 2009-2010

Original Estimate. The Government had committed to increasing the share of health care expenditure to 17% of its recurrent expenditure by 2011-2012. The annual capital works expenditure was expected to stay at a very high level in the next few years, averaging some \$50 billion per year. In view of the rapid growth in infrastructure investment, the Government would monitor closely the construction industry's capacity and avoid bunching of projects that might cause tension in the supply of construction labour and contract price fluctuations.

- (c) On the revenue side, profits and salaries taxes were the major sources of government revenue, accounting for 40.6% of total government revenue in the 2009-2010 Original Estimate. This was followed by investment income which accounted for 12% of the total. The major revenue items were highly affected by the economic situation and had been volatile in the past years. The Government had to explore measures to cope with the challenges posed by the volatility of revenue income. In the year of assessment 2007-2008, the top 100 000 salaries taxpayers contributed 79.4% of the revenue from salaries tax. For the same year, about 72.6% of the revenue from profits tax was contributed by the top 1 200 taxpaying corporations.
- (d) On medium range forecast in the 2009-2010 Budget, government spending was projected to continue to increase for funding of capital works expenditure, and for provision of new or improved services to the public. The fiscal reserves was envisaged to be drawn down from \$500 billion in 2009-2010 to \$400 billion by the end of 2013-2014. Over a period of time, the Government needed to achieve fiscal balance and rebuild the reserves. The Government would aim to keep expenditure within the limits of revenues and keep expenditure growth commensurate with the growth of GDP.

Discussion

Government revenue and the taxation system

36. Mr CHAN Kin-por opined that the simple and low taxation system was conducive to the competitiveness of Hong Kong as an international financial centre. Mr CHAN called on the Government to give due consideration to maintenance of Hong Kong's competitiveness in the region when devising measures to identify additional sources of revenue and/or broaden the tax base, notably in making changes to profits tax.

37. FS appreciated that the simple and low taxation system was an edge for Hong Kong in attracting investors and business enterprises, but this also gave rise to volatilities in revenue. Pointing out that a number of neighbouring economies had refined their taxation system recently, FS said that it was necessary for the Government to explore measures to strike a balance between maintaining the

competitiveness of Hong Kong's taxation system and generating adequate revenue to support the delivery of public services.

38. Mrs Regina IP said that apart from profits and salaries taxes, land premium and bets and sweeps tax had been two major sources of government revenue a decade ago. Revenue from the two latter taxes had dropped in the recent years due to the suspension of regular land auctions and increasing attraction of new casinos in Macao. In this connection, Mrs IP suggested the Government consider measures to increase revenue, e.g. imposing departure tax for visits to Macao. In exploring additional sources of revenue, Mrs IP proposed that consideration be given to new and innovative types of taxes, e.g. sin tax (i.e. indirect betting tax), or soda and obesity taxes (i.e. taxes on unhealthy food).

39. FS welcomed suggestions on new types of taxes and said that the Government would examine the ideas having regard to community responses. He advised that while revenue from land premium had been volatile over the past decade, the revenue from this source might exceed the Original Estimate in 2009-2010. As for the betting and sweeps tax, this normally constituted only an insignificant portion of the total government revenue. Given the cooperative relationship between the economies of Hong Kong and Macao, in particular in the tourist industry, the idea of reintroducing the departure tax for visits to Macao had to be examined in detailed. As to Mr WONG Kwok-hing's enquiry on the Goods and Services Tax, FS responded that having regard to the clear public views against the introduction of this new type of tax during the earlier consultation, the Government had no plan to pursue the issue.

40. Responding to Mrs Regina IP's concern about the investment return of the fiscal reserves placed with the Exchange Fund (EF), Permanent Secretary for Financial Services and the Treasury (Treasury) advised that under the existing fee arrangement, the fiscal reserves placed with EF would be paid an annual fee at a pre-determined rate fixed each year, based on the average returns of EF in the past six years.

41. Dr PAN Pey-chyou and Mr IP Wai-ming questioned whether it was necessary for Hong Kong to maintain the current low tax rates to compete with other economies. Pointing out the widening wealth gap in Hong Kong revealed by the Gini Coefficient, Dr PAN opined that the Government should review the taxation system, such as consider the introduction of more progressive tax rates. Dr PAN was also concerned that the Government's appointment of staff on non-civil service contract terms and delivery of public service through outsourcing arrangement had driven down the income of grassroot workers and aggravated the problem of disparity between the rich and the poor. Mr IP was of the view that the Government had put too much emphasis on maintenance of competitiveness of Hong Kong but neglected the benefits of grassroot workers. Despite creation of jobs through investment, Mr IP said that grassroot workers might not benefit from the economic growth if they could only get temporary and low-paid employments. Mr IP called on the Government to promote the sense of corporate social responsibilities in the

enterprises, so that the workforce in general could share the fruit of economic growth.

42. In response, FS said that the Government was committed to building a caring society, and had devised various measures to relieve the hardship as well as provide necessary assistance to those in need. In addition to relief measures, the Government had allocated considerable resources in areas such as education, vocational training, economic development and creation of job opportunities, with a view to facilitating upward social mobility and improving the standard of living for the community in general. Pointing out that some neighbouring economies had revised their tax rates to attract investors, FS said that the low and simple taxation system of Hong Kong was important for maintaining its competitiveness in the region. Moreover, imposing higher tax rates might not necessarily increase government revenue, given the keen competition in the region and the current global economic environment.

Measures to promote employment

43. Referring to the Government's principle of "from welfare to self-help" in tackling poverty, Mr WONG Kwok-hing was concerned about the concrete measures to this end. In view of the rapid growth in infrastructure investment in the coming years, Mr WONG asked whether the Government would explore ways to encourage the project contractors to employ more local workers, especially those residing in remote districts such as Tin Shui Wai.

44. FS responded that the Government's overall strategy was to propel economic growth in order to facilitate employment and improve the standard of living of the population in general. He pointed out that along with the strong economic rebound after 2003, the labour market improved and the rate of unemployment reduced. On employment of workers by contractors of major infrastructure projects, FS advised that as a number of these projects would enter their construction peaks in the next few years, the annual capital works expenditure was expected to stay at a very high level and the jobs so created would benefit workers residing in different areas of the territory given the different locations of these projects.

45. Pointing out the recent trend for enterprises to offer temporary or short-term employments with rather mean pay packages, Mr LEE Wing-tat did not agree that the income and livelihood of the workforce in general would improve along with economic recovery and creation of jobs. Mr LEE observed that in the past decade, the income growth for lower-skilled workers had been extremely slow compared with that for senior managers/executives. Mr LEE was of the view that short-term relief measures for the low-income groups could not adequately address the problem facing lower-skilled workers. Hence, the Government should draw up long-term strategic measures in the Budget to tackle the problem of unemployment and working poverty, for example retirement protection for the workforce.

46. In response, FS said that statistics showed that many private enterprises had resumed recruitments, and the unemployment rate had dropped after stabilizing at

5.4%. The Government aimed to formulate strategy to enhance a sustainable and diversified economic development, with a view to creating jobs and improving employment. Given that Hong Kong was under the process of transformation to a knowledge-based economy, demand for lower-skilled workers would be decreasing in the long run and therefore it was necessary to upgrade the skills of the workforce to cope with the changes. The Government would provide in the 2010-2011 Budget necessary resources requirements for implementation of policy initiatives in this regard.

47. Noting the potential for development of the six industries, Mr WONG Kwok-hing enquired about the resources to be allocated for and the number of jobs to be created from such development. Ms Starry LEE suggested that tax incentives, say in the form of tax breaks, could be offered to private enterprises to encourage investments in innovation and technology development in relation to the six industries.

48. FS advised that the private sector part of the six industries currently contributed about 7% to 8% of GDP and employed around 350 000 workers (i.e. about 10% of the total workforce). While the Government saw great potential for development of the six industries, this would hinge on market responses and therefore it was hard to forecast the number of jobs so created in the coming years. The Government had been actively promoting the development of innovation and technology. In this connection, about \$200 million would be allocated to launch a "Research and Development Cash Rebate Scheme".

49. Ms Starry LEE opined that the Government should devise a long-term strategy to tackle the unemployment problem, targeting workers of different age groups and background. Ms LEE was particularly concerned about the unemployment problem among the youth population. She asked whether the Government would consider requesting private enterprises to offer more job opportunities to young people in return for the incentives/subsidies provided for development of the six industries. Referring to the difficulties faced by the women workers, Ms LEE suggested that measures such as child care services be provided to facilitate housewives with young children to rejoin the workforce and hence increase the household income of some low-income families.

50. FS stressed that measures to promote employment of youth workers had been put in place, with considerable resources allocated for provision of education and vocational training programmes to enhance their skills and knowledge to cope with the demand of a knowledge-based economy. To ensure that the training programmes offered would match the skills required in the market, the Vocational Training Council had conducted market surveys for the programme designs. As to the employment of female workers, FS pointed out that the female labour participation rate had been on the rise in the past years, showing a large percentage of female workers in the workforce. Various non-government organizations were providing quality and popular child care services across the territory and consideration could be given to further enhancing the services.

Relief measures for the low-income households

51. Noting that the Government was conducting a comprehensive review of the Transport Support Scheme (TSS), Mr WONG Kwok-hing requested continuation of the scheme. Mr WONG opined that this could relieve the burden of high transport costs on low-income employees living in remote districts and encourage them to seek jobs or work across districts. Ms Starr LEE shared Mr WONG's concern and said that TSS should be extended to low-income employees in all districts. Mr WONG was also concerned about the residence requirement for recipients of the Old Age Allowance (OAA) and opined that the requirement should be relaxed or lifted to allow recipients to live outside Hong Kong.

52. FS noted Members' concerns about TSS and OAA. He said that the Secretary for Labour and Welfare, who oversaw these policy issues, had responded to questions on the issues at meetings of the Legislative Council (LegCo) and the relevant committees, and would maintain dialogue with Members and the relevant committees in this regard.

53. The Deputy Chairman opined that the Government should devise effective measures to tackle the problem of poverty in the long run, instead of deploying short-term relief measures to "hand out candies" to the needy. The Deputy Chairman opined that in formulating proposals in the Budget, FS should aim to assist the general public to walk out from the doldrums. For example, the Government should allocate more resources for development of local economy in the remote districts, say, by allocating funds for the development of social enterprises. The Deputy Chairman pointed out that there was an immediate need to expand certain social services, e.g. provision of subsidized residential care places for the elderly and the mentally ill.

54. FS appreciated the Deputy Chairman's view about the need for measures to tackle the problem of poverty in the long run. He advised that any measures in the 2010-2011 Budget should be targeted so that public resources would be put to the best use to meet the competing needs of the community in different policy areas. FS said that the Government was fully aware of the need to provide services to meet the imminent demand of different groups, such as the elderly and the mentally ill, and had devoted considerable resources for the purposes in the recent years. Continued efforts would be made to formulate policy initiatives in these areas. As to the development of local economy, FS said that plans were being made to facilitate the provision of job opportunities in relatively remote districts, for example, the plan to relocate the Government Offices in Wan Chai to other districts.

Retirement protection

55. Noting that the expenditure on social welfare had increased by 49% in the past ten years, Mr CHAN Kin-por opined that the Government should review its

policy on provision of comprehensive retirement protection, or the expenditure on social welfare would continue to escalate with the ageing population.

56. In response, FS said that the issue on comprehensive retirement protection had been a subject of public discussion for a long time, and the relevant policy bureau had conducted detailed studies on the issue. Under the existing Mandatory Provident Fund (MPF) System, employees would be able to withdraw the accrued benefits from the mandatory contribution at retirement age, and they were also encouraged to make voluntary contributions to save more for their retirement. An overall review of the retirement protection scheme for the population involved complicated policy issues which required detailed examination, to which the Government had no ready answer at present.

57. Mr IP Wai-ming opined that to enhance retirement protection for the workforce, consideration should be given to enhancing the existing MPF System. He suggested that in the upcoming review of the MPF System, consideration should be given to matters such as increasing the percentage of mandatory contributions and providing tax allowance for voluntary contributions. Mr IP also expressed concern about measures to increase employees' control of their MPF investments by allowing them to choose their MPF scheme trustees, and measures to reduce the level of fees and charges of MPF funds. In reply, FS said that measures to improve the MPF System would be considered in the review to be conducted in 2010. The Administration and the Mandatory Provident Fund Schemes Authority would brief the Panel on Financial Affairs on the review in due course.

Promotion of green economy

58. The Deputy Chairman opined that the Government should devise measures to promote the development of green economy and incorporate these in the budget proposals. He said that Members belonging to the Civic Party would give some suggestions in this regard. Mr KAM Nai-wai expressed a similar view. Referring to the policy initiatives of distributing cash coupons for compact fluorescent lamps and the promotion of electric vehicles, Mr KAM criticized the Government's lack of determination in the development of green economy. Mr KAM called on the Government to consider relevant proposals put forward by Members of the Democratic Party, including the introduction of natural gas power generators, provision of subsidies as incentive for conversion to environment friendly buses, and levying the vehicle registration fees based on the carbon emission level of the vehicles.

59. FS stressed that the Government attached importance to the promotion of green economy with a view to creating a quality living area for the population of Hong Kong. Efforts would be made to work out appropriate measures and views from Members and the public would be welcome. He noted that a number of the issues/suggestions raised by Members had been examined by the policy bureau, and the Secretary for the Environment would continue to explore the feasibility of the proposals in consultation with the relevant LegCo committees. FS stressed that the

Government would map out strategies to implement energy saving initiatives and promote a low carbon economy.

Outlook of the fiscal position

60. Pointing out that the Government might not be able to achieve a balanced budget in 2010-2011, the Chairman was concerned about its commitment of increasing the share of health care expenditure to 17% of its recurrent expenditure in 2011-2012. The Chairman remarked that the Government should consider measures to alleviate the burden on healthcare spending, such as the provision of subsidies for the public to take out medical insurance.

61. FS said that based on the forecast released in the 2009-10 budget, a balanced budget would largely be achieved in 2013-2014, and during the interim, about \$100 billion would be drawn from the fiscal reserves to fund government expenditure. On healthcare spending, FS advised that as the share of spending would increase from 15% to 17% of the Government's recurrent expenditure by 2012, inevitably the allocation in terms of percentage to some other policy areas would have to be reduced and the Government would have to prioritize the use of public resources to meet changing needs. To address the issue of healthcare financing, the Food and Health Bureau was planning to consult the public on a financing option based on voluntary participation in 2010.

VI Review of corporate rescue procedure legislative proposals

(LC Paper No. CB(1)191/09-10(01) — Information note on public consultation on the review of corporate rescue procedure legislative proposals (with copy of the consultation paper attached)

LC Paper No. CB(1)527/09-10 — Background brief on review of corporate rescue procedure legislative proposals prepared by the Legislative Council Secretariat)

Briefing by the Administration

62. The Deputy Secretary for Financial Services and the Treasury (Financial Services)³ (DS(FS)) briefed members on the legislative proposals for the corporate rescue procedure, by highlighting the salient points in the paper.

Discussion

63. Mrs Regina IP recalled that when the previous legislative proposals on the corporate rescue procedure were scrutinized by the Legislative Council (LegCo)

back in 2000 and 2001, there were diverse views among stakeholders and the relevant bills had not been enacted eventually. Mrs IP pointed out that she was not convinced of the merits of the legislative proposals for the stakeholders, such as the business corporations, the employees and the creditors. Referring to the Administration's explanation that one of the reasons for not proposing to adopt the procedure under Chapter 11 of the United States Bankruptcy Code was the high cost with close court involvement, Mrs IP was of the view that the proposal of provisional supervision was also costly. Given that the majority of enterprises in Hong Kong were small and medium-sized enterprises (SMEs), Mrs IP doubted the need of the corporate rescue procedure, as SMEs in financial difficulties might not have the resources to go through the procedure. Mr IP Wai-ming said that Members belonging to the Hong Kong Federation of Trade Unions shared a similar view.

64. DS(FS) appreciated that while SMEs in financial difficulty might be relatively less likely to benefit from the corporate rescue procedure, the legislative proposals for the procedure aimed to provide an option to bridge the gap of the existing statutory and non-statutory arrangements for companies to survive through financial difficulty. DS(FS) advised that the provisional supervision and the moratorium proposed under the corporate rescue procedure would improve the chances of survival of corporations, as more time would be allowed for the provisional supervisors to work out the voluntary arrangement proposal for approval of the creditors. He assured members that interest of employees would be protected under the corporate rescue procedure by ensuring that their entitlements and rights would not be worse off than in the case of winding up. Preliminary consultation with the business sector indicated that the corporate rescue procedure could help corporations to tide over difficulties during financial crisis.

65. Mr WONG Kwok-hing was concerned about measures to protect the interest of employees during the proposed corporate rescue procedure, as it was quite common for corporations in liquidation to owe to their employees considerable amount of arrears of wages, severance payments and other statutory entitlements. In this connection, Mr WONG recalled that the bills for the introduction of corporate rescue procedure in 2000 and 2001 had not been enacted mainly due to the lack of a consensus among stakeholders on the treatment of employees' outstanding entitlements, and enquired whether the concerns raised could be fully addressed in the consultation proposals.

66. DS(FS) advised that the Administration attached importance to the settlement of employee's entitlements in the corporate rescue procedure and reiterated that the proposals in the consultation paper aimed to ensure that the treatment of employees' entitlements would not be worse off than in the liquidation scenario. In formulating the consultation proposals, the Administration had taken into consideration views of Members and stakeholders on the difficulties of a financially troubled corporation to provide sufficient funds in a trust account for settlement of all outstanding wages and statutory entitlements of employees before commencing the corporate rescue procedure. The Administration was consulting the public on various options to settle the outstanding entitlements, including the proposal put forward in 2003 of capping

the trust account amount to mirror that of the Protection of Wages on Insolvency Fund (PWIF).

67. Mr WONG Kwok-hing and Dr PAN Pey-chyou were concerned about the need and the ways of inviting views of stakeholders from the business, professional and labour sectors, such as the Labour Advisory Board, on the consultation proposals. In reply, DS(FS) advised that the Administration had briefed the Labour Advisory Board on the consultation proposals. The Administration would arrange consultation forum/focus group discussion to gauge views from stakeholders during the three-month consultation on the legislative proposals. The Chairman remarked that interested parties could give views to the Administration during the consultation period, and/or submit views to the Panel when the Administration briefed the Panel on the consultation feedback in 2010.

68. Mr IP Wai-ming requested the Administration to extend the consultation period to allow more time for the stakeholders to consolidate their views on the proposals. Mr IP stressed the importance of protecting the interest of the employees, but expressed concern about possible abuses of PWIF by unscrupulous employers during the corporate rescue procedure. He asked whether the Administration had sought the views of the community and PWIF on the propriety of using the fund for settlement of employees' wages owed by their employer companies undergoing the corporate rescue procedure.

69. DS(FS) responded that having regard to the majority views of the community and the time allowed for preparation and scrutiny of the legislative proposals, the Administration might consider extending the consultation period, where necessary. DS(FS) pointed out that among the three options for treatment of employees' outstanding entitlement, only option B would involve the use of funds in PWIF. The Administration would consult the PWIF Board on the arrangements if this turned out to be the preferred option in the public consultation. As a provisional supervisor, unconnected with the board of directors/management of the corporation concerned, would be appointed to work out the voluntary arrangement for corporate rescue, the possibility of abuse by employers or company directors would be minimized.

VII Any other business

70. There being no other business, the meeting ended at 12:50 pm.