

LCQ21: Support for small and medium enterprises

Following is a question by the Hon Jimmy Ng and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (November 7):

Question:

The results of a study reveal that small and medium enterprises (SMEs) have been faced with the problem of labour costs rising incessantly since the implementation of the Statutory Minimum Wage (SMW) regime in May 2011. The profit ratio of SMEs was 2.7 percentage points lower than that of all enterprises in 2011, and such gap gradually widened to 6.7 percentage points in 2016. Regarding the support for SMEs, will the Government inform this Council:

(1) whether it knows the respective profit ratios, in each year from 2011 to 2017, of SMEs belonging to the following five industries: (i) import/export trade and wholesale, (ii) social and personal services, (iii) professional and business services, (iv) retail, and (v) accommodation and food services; whether it has studied the impacts of the rise in labour costs on the profitability of SMEs belonging to these industries; if so, of the outcome;

(2) as a survey's findings have revealed that the business support most wanted by SMEs from the Government is the introduction of one-off relief measures (such as exemption from payments of business registration fees and other levies), whether the Government will roll out measures in response to such a request; if so, of the details; if not, the reasons for that;

(3) given that both the number of applications received for, and the number of SME beneficiaries of, the SME Loan Guarantee Scheme and the SME Export Marketing Fund have been on the decline over the past few years, of the measures to be put in place by the Government in the coming year to enhance these initiatives, so as to encourage SMEs to make applications; and

(4) whether it will consider afresh extending the geographical scope for the subsidy of the Enterprise Support Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales from the current coverage of the Mainland and the member states of the Association of Southeast Asian Nations to encompass all the countries and regions along the Belt and Road; if so, of the details; if not, the reasons for that?

Reply:

President,

Having consulted the Office of the Government Economist, the Financial Services and the Treasury Bureau, and the Trade and Industry Department, my reply to the four parts of the question is provided below:

(1) Data on the profit ratio of small and medium enterprises (SMEs) (only including enterprises with employees) by selected industries from 2011 to 2016 (latest available data) are set out at Annex.

The Government has all along paid close attention to the business situation of various industries, in particular SMEs. Generally speaking, an increase in labour costs would exert greater pressure on the operation of labour-intensive sectors. Nevertheless, profit ratio of enterprises actually depends on a host of external factors (such as external economic environment) and internal ones. Apart from compensation of employees, business situation of the relevant sectors, costs of goods and changes in other operating expenses also matter.

(2) When considering and formulating relief or concessionary measures, the Government takes into account the overall economic situation, the Government's fiscal position, the needs of various sectors in the community and relevant policies in a holistic way. The 2018-19 Budget proposed a series of concessionary measures, including reduction of profits tax and rates concession, from which many SMEs have benefited. In addition, the Government has implemented the two-tiered profits tax rates regime with effect from the year of assessment 2018-19, lowering the rate by half to 8.25 per cent for the first \$2 million of assessable profits for qualifying enterprises. This new measure can provide tax relief to SMEs.

The Government will continue to closely monitor the global economic situation and its impact on Hong Kong's economy.

(3) Under the SME Loan Guarantee Scheme (SGS), the Government provides up to 50 per cent loan guarantee to SMEs to help them secure loans from the participating lending institutions for acquiring business installations and equipment or as general working capital. Since its launch in 2001 and up to end September 2018, 31 405 applications have been approved, involving a guarantee amount of about \$25.6 billion and benefitting over 16 000 SMEs. The number of applications received in the third quarter of 2018 (221 applications) has increased by 19 per cent as compared to the same period last year.

The SME Export Marketing Fund (EMF) aims to encourage SMEs to expand to markets outside Hong Kong by providing financial assistance to SMEs for participation in export promotion activities. Since its inception in 2001 and up to end September 2018, the EMF has granted some \$3.3 billion benefitting over 47 000 enterprises. To strengthen the support to SMEs for exploring new markets and new business opportunities, the Government has advanced the launch of the enhancement measures to the EMF to August 1, 2018, including doubling the cumulative funding ceiling per SME and the maximum funding per application to \$400,000 and \$100,000 respectively. Upon the launch of the enhancement measures, the number of applications received by the EMF in August and September (1 609 applications) has increased by 20 per cent as compared to the same period last year.

We will continue to closely monitor and review the operations of the SGS and the EMF from time to time, and will make adjustments where necessary to

assist SMEs in obtaining financing and expanding their markets outside Hong Kong.

(4) To further assist enterprises in developing markets, the Government has advanced the launch of the enhancement measures to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to August 1, 2018, including the launch of the ASEAN Programme under the BUD Fund to provide funding support to non-listed Hong Kong enterprises in carrying out projects that aim to enhance their competitiveness and further business development in the ASEAN markets. We have also advanced the launch of enhancement measures to the Mainland Programme under the BUD Fund, including doubling the cumulative funding ceiling per enterprise to \$1 million, and relaxing the current restriction on the maximum number of approved projects, so as to strengthen support to SMEs. The trade responded positively to the enhancement measures. As at September 30, 2018, the ASEAN Programme received 75 applications; and the enhanced Mainland Programme received 273 applications in the third quarter, representing a substantial increase of 58 per cent as compared to the last quarter.

We will maintain liaison with the trade, learn from the operational experiences of the ASEAN Programme and review the operations of the BUD Fund from time to time, including the geographical coverage of its funding support, taking into account the changing market and economic situation as well as feedback from the trade. We will make adjustments where necessary so as to cater to the needs of enterprises.

Besides, there is no geographical limitation under the EMF, and SMEs may make use of the funding to conduct export promotion activities that aim at countries along the Belt and Road.