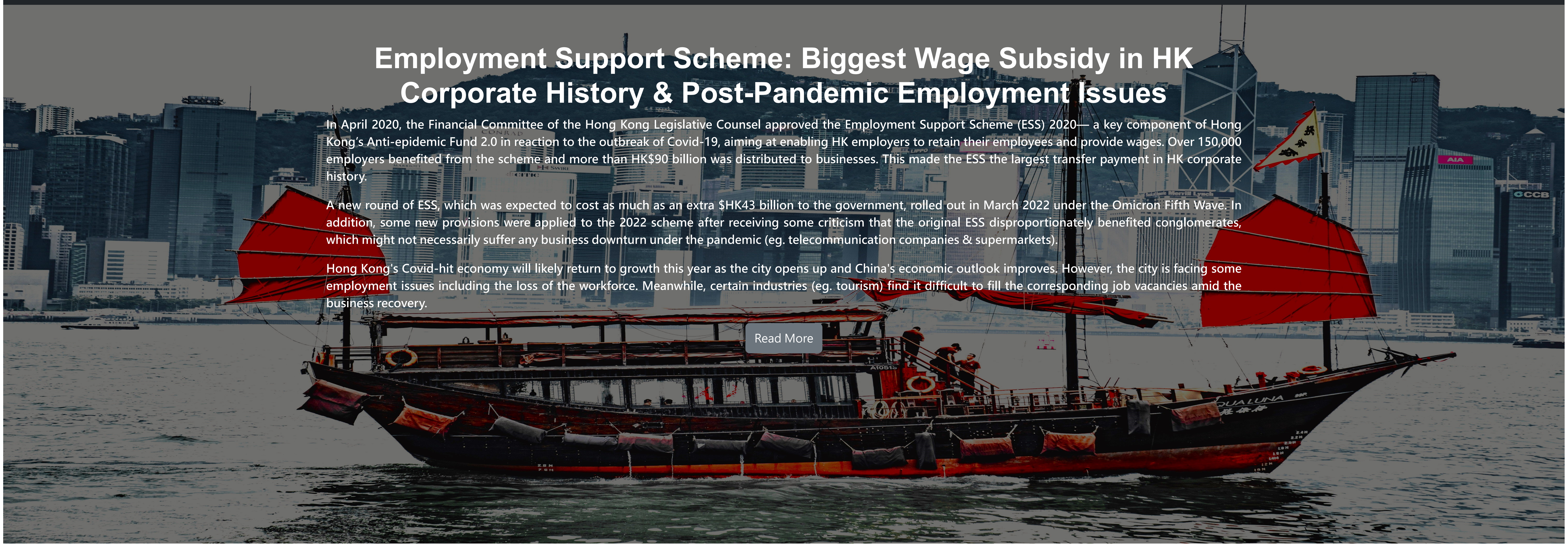

Employment Support Scheme: Biggest Wage Subsidy in HK Corporate History & Post-Pandemic Employment Issues

In April 2020, the Financial Committee of the Hong Kong Legislative Counsel approved the Employment Support Scheme (ESS) 2020— a key component of Hong Kong's Anti-epidemic Fund 2.0 in reaction to the outbreak of Covid-19, aiming at enabling HK employers to retain their employees and provide wages. Over 150,000 employers benefited from the scheme and more than HK$90 billion was distributed to businesses. This made the ESS the largest transfer payment in HK corporate history.

A new round of ESS, which was expected to cost as much as an extra $HK43 billion to the government, rolled out in March 2022 under the Omicron Fifth Wave. In addition, some new provisions were applied to the 2022 scheme after receiving some criticism that the original ESS disproportionately benefited conglomerates, which might not necessarily suffer any business downturn under the pandemic (eg. telecommunication companies & supermarkets).

Hong Kong's Covid-hit economy will likely return to growth this year as the city opens up and China's economic outlook improves. However, the city is facing some employment issues including the loss of the workforce. Meanwhile, certain industries (eg. tourism) find it difficult to fill the corresponding job vacancies amid the business recovery.

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Introduction

Since the global outbreak of Covid-19 in early 2020, Hong Kong has implemented various control measures including travel and business restrictions over the course of the pandemic. Many businesses have struggled with decreased demand for goods and services, and some employers were forced to reduce their staff or cut working hours. Referring to Census Department, HK's annual unemployment rate for 2020 was 5.83% (+2.9pp, YoY) which was the highest since 2003 upon the impact of SARS.

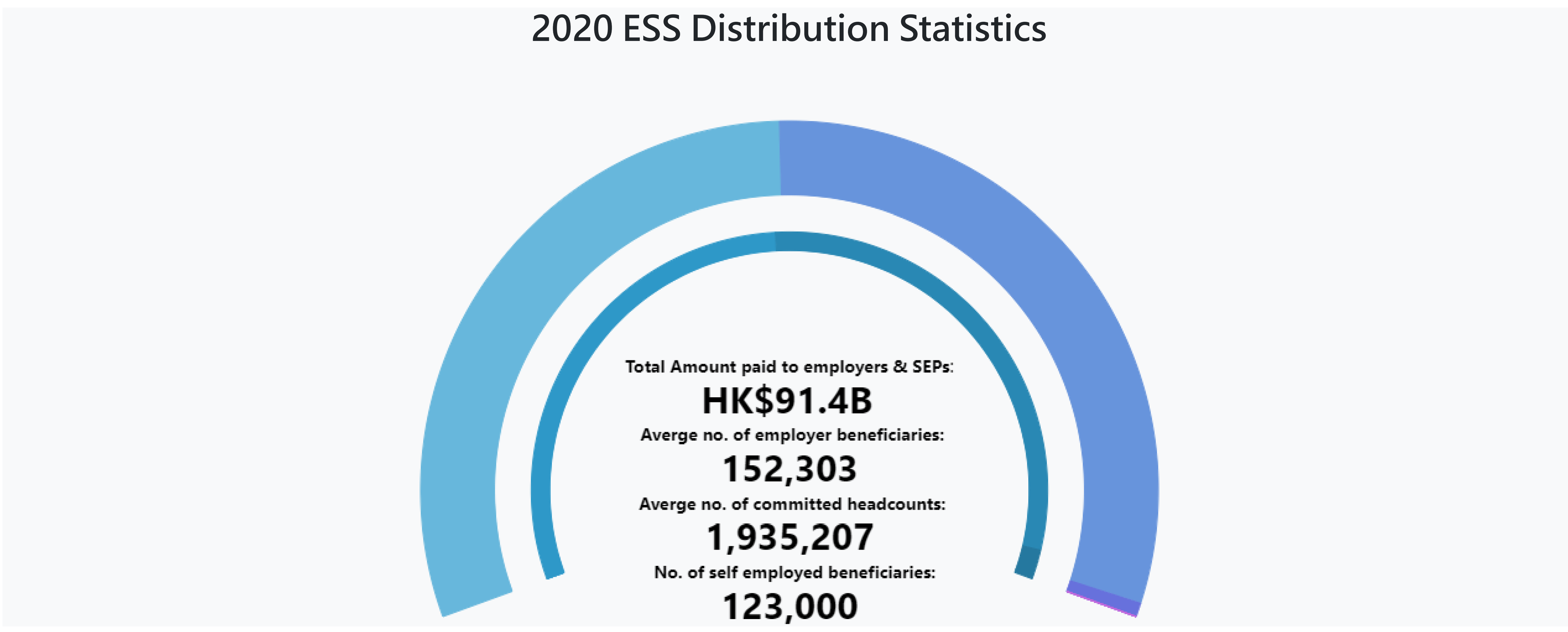
To maintain employment during the epidemic, the HKSAR government hence launched an ESS, which will provide time-limited financial support to employers to retain their employees who will otherwise be made redundant. Similar schemes had been rolled out by other jurisdictions (e.g. Singapore, UK, Australia) to retain/support jobs.

Generally speaking, the government covered 50% of employees' salaries up to a subsidy cap of HK$9,000 per month for 6 months from June to November 2020, divided into 2 phases each of 3 months. Each phase had to be separately claimed. Eligible employers are those who meet the following conditions:

1. Have been making Mandatory Provident Fund (MPF) contributions or have set up Occupational Retirement Schemes (ORSO schemes) for their employees

2. Provide an undertaking that they will:
   - Not lay off any workers during the subsidy period
   - Use the full amount of the subsidies to pay their employees' wages

In addition, employers could not apply subsidies for employees with more than HK$30000 monthly income. The scheme also covered self-employed persons (SEPs) who have made MPF contributions in the past 15 months. Eligible SEPs would be granted a one-off lump-sum subsidy of HK$7,500.

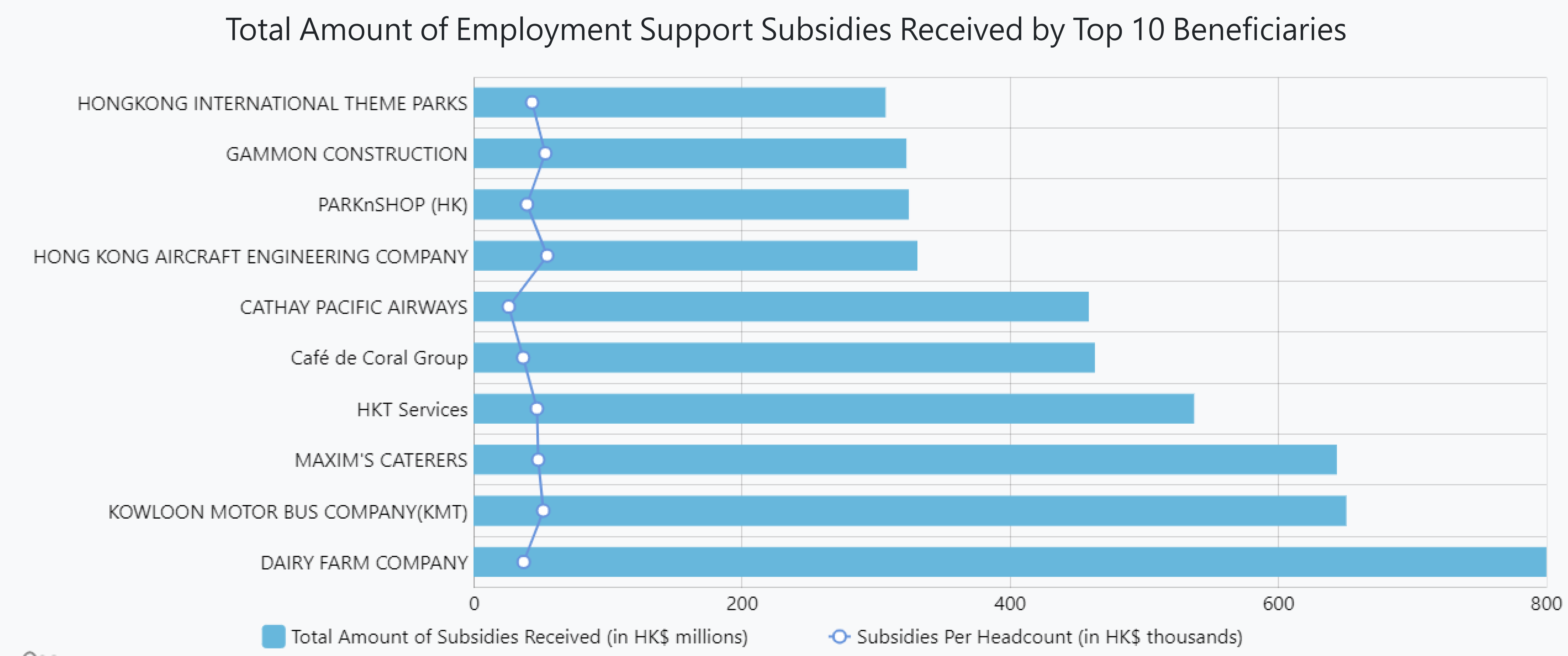


Source: HKGov ESS website, Webb-site

Top 2020 ESS Recipients

Hong Kong's biggest conglomerates and chains were among the top beneficiaries of the ESS. Dairy Farm Company Limited was ranked as the no.1 recipient, totalling almost HK$800 million, under the scheme. According to the filings, the group that includes the Wellcome supermarket chain, Mannings pharmacy chain, 7-Eleven convenience store franchise, and IKEA furniture franchise pledged to maintain a minimum of 21,611 job positions during the subsidised periods spanning from June to August and September to November 2020.

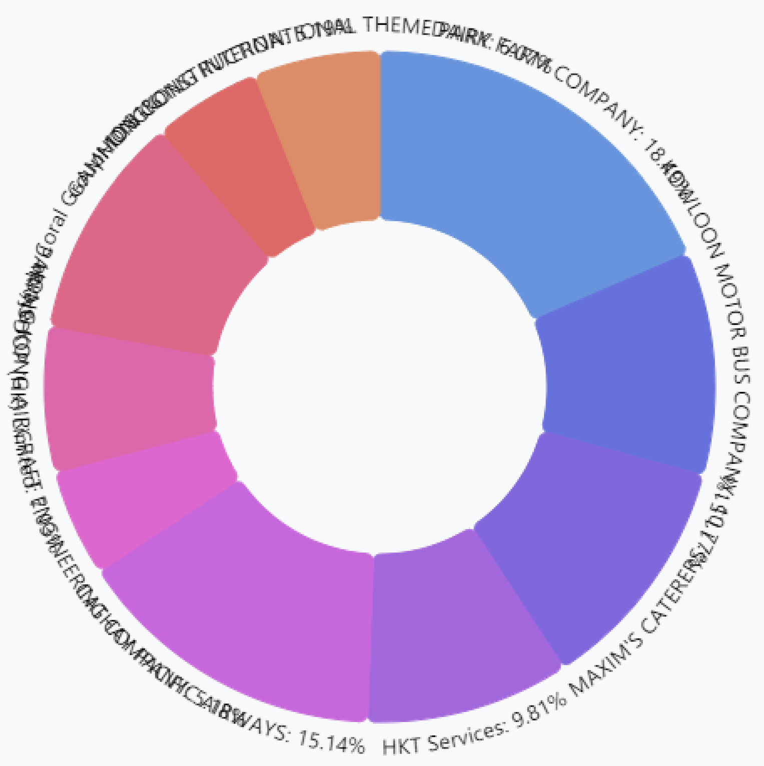
Kowloon Motor Bus Company (KMB), Maxim's Caterers (a restaurant chain and group), HKT Services (the largest telecommunications company in the city), and Cafe de Coral (a fast food chain) were among the top five beneficiaries of the subsidies, according to the records. More than 55 employers received over HK$100 million.



Source: HKGOV ESS Documents

Combined Amount Received by Top 10 Recipients: HK$4.83B

Among the top 10 companies, Dairy Farm Company Limited received the largest amount of subsidies ($HK799.4 million) with $HK36.9K per headcount. Cathay Pacific had the lowest subsidies per headcount ($HK25.8K) as it did not apply for the phase 2 subsidy. Instead, it chose to cut 8,500 jobs and eliminated Dragon Brand in Oct



Drag slices over the line for comparison

Source: HKGOV ESS Documents

Total Number of Jobs Retained by the Top 10 Recipients Under the Scheme: 116,891

The number of headcounts to be retained by the top 10 companies during the subsidized period ranged from 6,066(GAMMON CONSTRUCTION) to 21,611(Dairy Farm Company Limited). These 10 firms bagged about 5% of the total subsidies and committed to around 6% of the total headcounts.

Sector breakdown of the Top 10 Recipients:

2 from Grocery Retail (Dairy Farm, PARKnSHOP), 2 from Fast-Food Chains (Maxim's Caterers, Café de Coral), 2 from Aviation (Cathay Pacific, HONG KONG AIRCRAFT ENGINEERING), 1 from Public Transport (KMB), 1 from Telecommunications (HKT Services), 1 from Construction (GAMMON), and 1 from Theme Park (HONGKONG INTERNATIONAL THEME PARKS Limited, the owner of Hong Kong Disneyland)

Controversies of the Employment Support Scheme

The Hong Kong Employment Support Scheme (ESS) has faced criticism from some quarters, particularly from smaller businesses who felt that the scheme was biased towards larger companies. For instance, there were over 150,000 employers included in the scheme but the top 10 conglomerates already received over 5% of the total subsidies. Although the government has repeatedly denied this, there was a sense that the distribution of the subsidy undermined the government's efforts to provide equal support to all businesses affected by the pandemic.

Additionally, there were concerns that the scheme did not offer enough transparency in terms of how the subsidies were allocated and whether they were going to the businesses that needed them the most.

Activist investor David Webb said the handout scheme was "misconceived" and ended up being government "largesse" to corporations. "It would only be fair to compensate businesses ordered to shut down by the government," he argued.

Among the top recipients, billions went to businesses that were unaffected or even performed better during the pandemic, such as supermarkets and telecommunication companies. On the other hand, companies like Cathay Pacific were forced to cut thousands of jobs to survive. Resources could have been allocated more efficiently to the industries that were severely impacted by Covid.

Cathay Pacific slashed over 8500 jobs after receiving the first phase subsidies of ESS.

Cathay Dragon brand was ceased as part of a major restructuring.

Another criticism of the ESS was that it did not do enough to support certain groups of employees, such as freelancers and those in the gig economy, whose incomes were seriously hindered by the pandemic but were not covered by the scheme. Some argued that the government should have provided support to these individuals through alternative means, such as targeted financial assistance or job training programs.

Freelancers are not protected under the ESS.

Meanwhile, 215,000 self-employed people were each eligible for a one-off handout of HK$7,500 from the scheme, the government said in 2020. However, only about 57% of them ultimately received the one-off ESS subsidy.

Another related issue was the temporary nature of the support provided by the ESS. The subsidies only provided short-term relief and did not address the longer-term challenges faced by businesses in the post-pandemic economic landscape. A more comprehensive and sustainable approach was called to support businesses and employees as they navigate the ongoing challenges and uncertainties brought about by the pandemic.

Including the self-employed subsidies, the ESS disbursed HK$91.4 billion in total. The sum was HK$10.4 billion, or about 12.8 %, more than the HK$81 billion earmarked when the scheme was first announced.

Overall, the ESS was a bold attempt to support businesses during an unprecedented crisis. Over 1.9 million employee headcounts were secured by the scheme during the specified period, exceeding the estimates by about 440,000.

In 2022, the HKSAR government announced a new round of the Employment Support Scheme (ESS) amid the fifth wave of COVID-19 and some refinements were made to address the above criticisms.

Key Difference between 2022 ESS and 2020 ESS

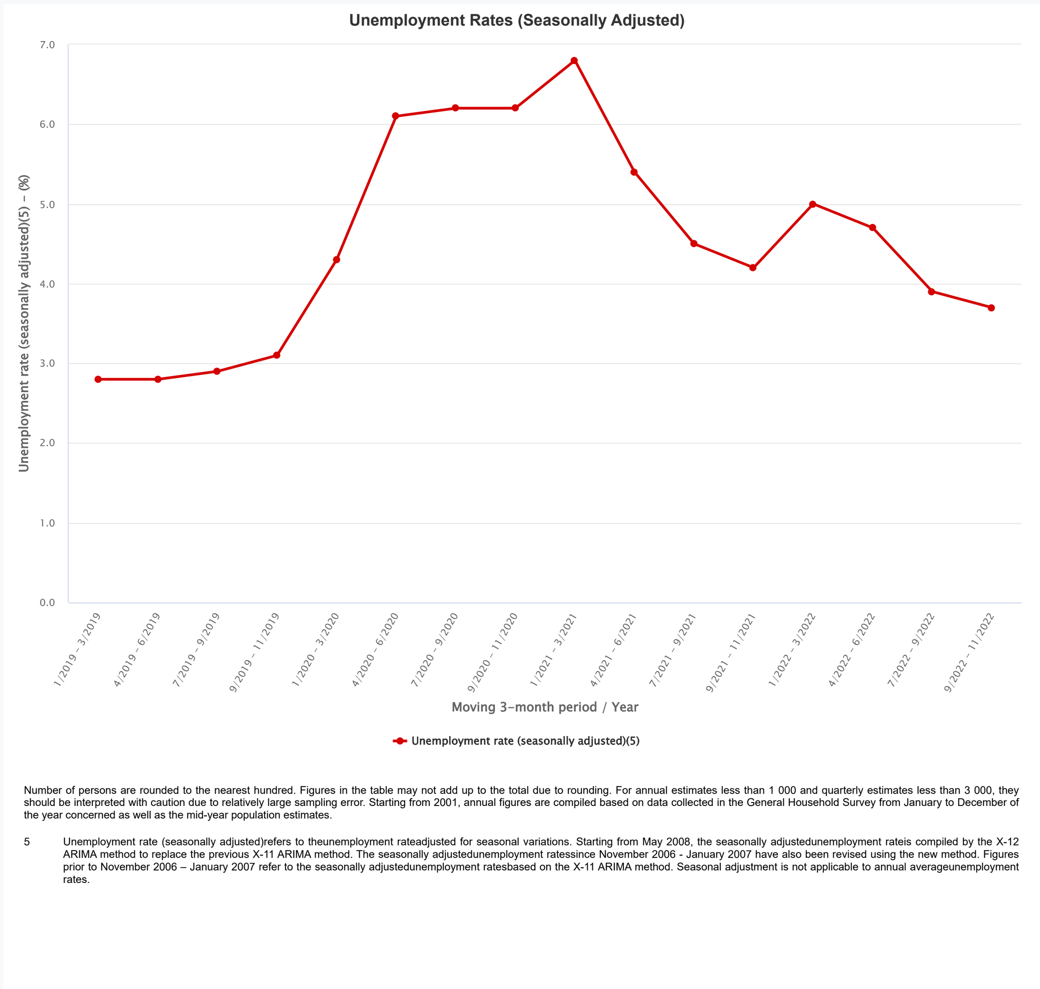
After receiving feedback from various stakeholders, the Hong Kong government has made certain adjustments to the 2002 Employment Support Scheme (ESS) to provide wage subsidies to employers for three months (i.e. May, June and July 2022).

The key proposed changes are:

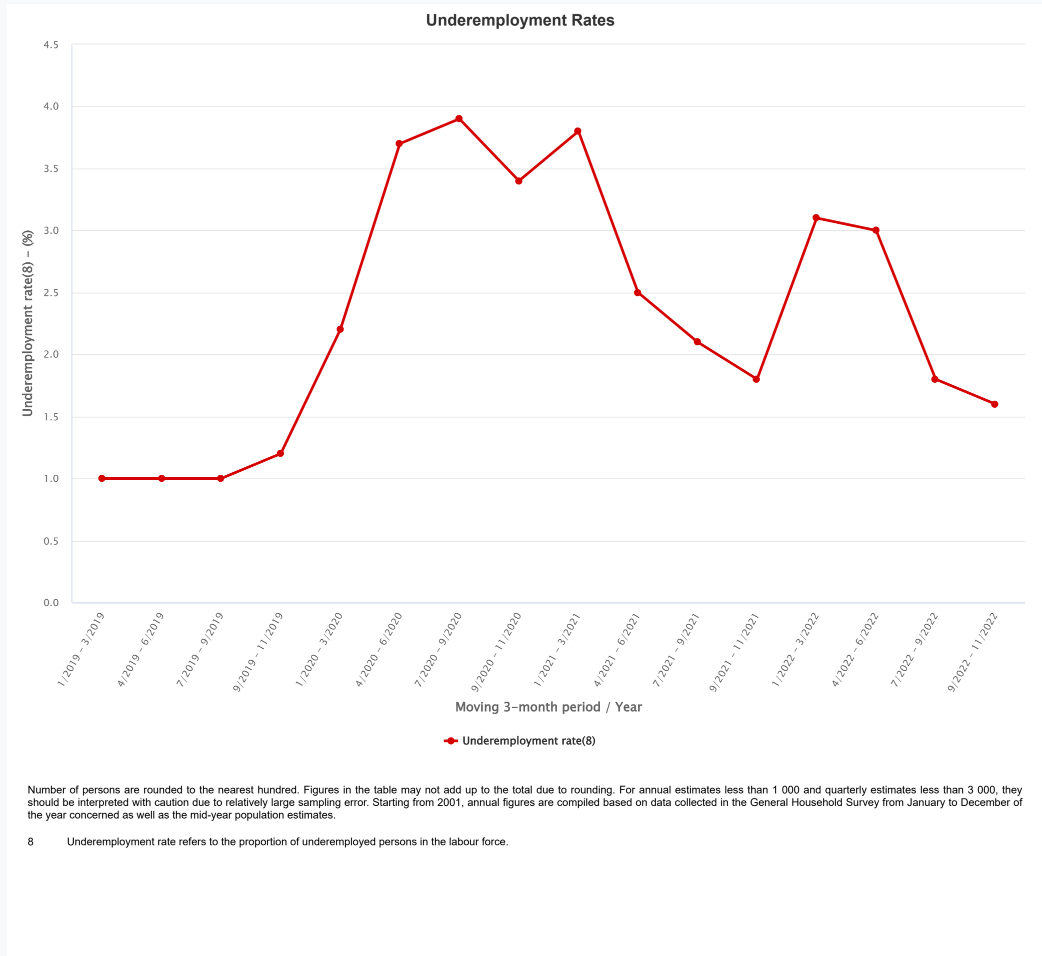
- Employers can now apply for wage subsidies for higher-paid employees as the salary cap of HK$30,000 has been removed;
- The Hong Kong government has placed employers in less severely impacted sectors due to the fifth wave of COVID-19 on the "Restricted List" rather than the "Exclusion List". While employers on the "Restricted List" can still qualify for the wage subsidy, they are limited to a maximum of 100 subsidised employees;
- Employers, with the exception of those on the "Restricted List," have the ability to apply for the wage subsidy for a maximum of 1,000 employees.

was estimated to be around 1.74 million, costing the government as much as HK$43 billion.

Analytics of Hong Kong Post-Pandemic Employment Market



The unemployment rate peaked at 6.8% in 2021Q1 and gradually reduced to 3.7% in 2022Q4, which is still higher than the pre-pandemic level.
Source: Census Department



Underemployment Rate peaked at 3.9% in 2021Q3 and gradually reduced to 1.6% in 2022Q4, showing the improvement of the sufficient working hour for labour.
Source: Census Department

GDP growth (annual %)

Data from World Bank

GDP (current US$)

Data from World Bank

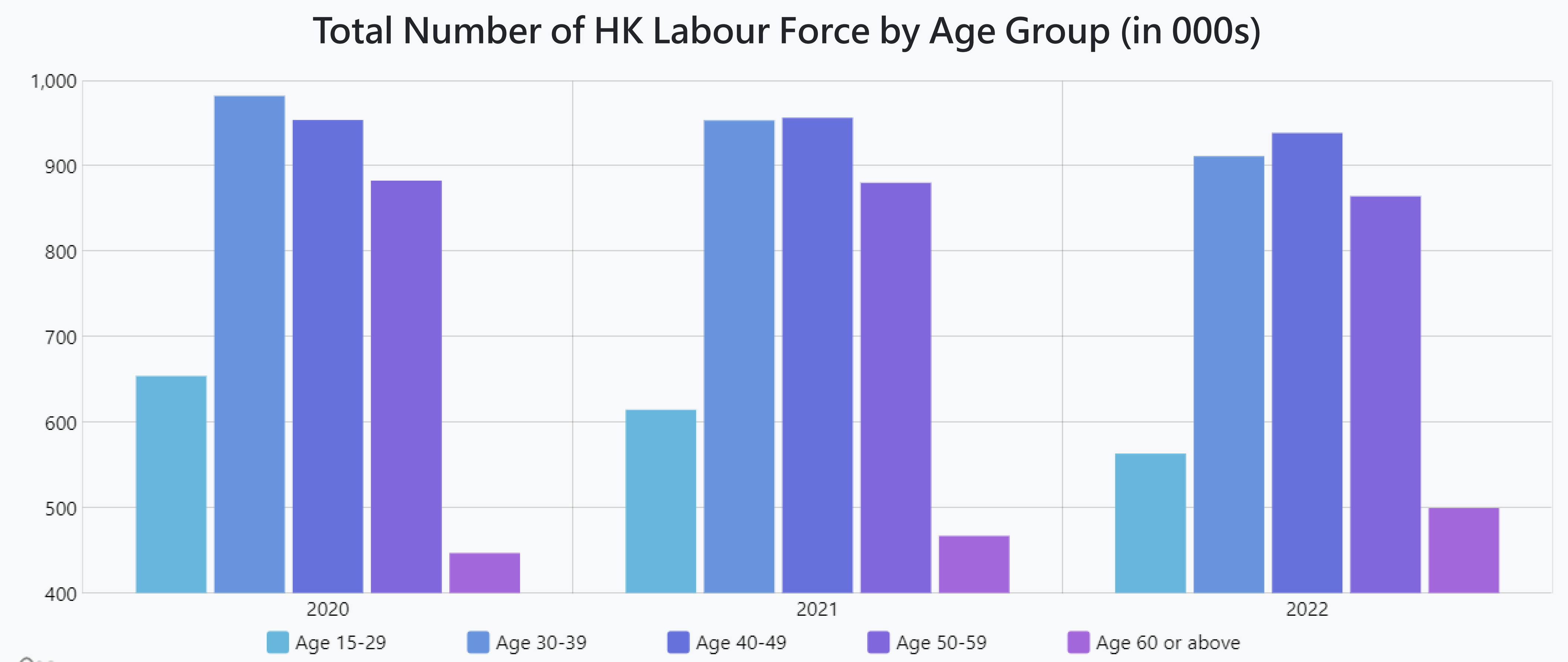
Singapore is one of the key competitors for talent in the APAC region. In terms of GDP growth, Hong Kong and Singapore have almost identical movements as both are internationally-oriented economies. In the last decade, Singapore's economy has generally grown faster than Hong Kong's.

In terms of the GDP scale, the gap between Hong Kong and Singapore has widened in 2021 as Singapre's economy rebounded from the pandemic, while Hong Kong still maintain strict covid control measures at the time.

In the post-pandemic period, Hong Kong is facing a range of employment-related issues, including the challenge of retaining talent. There are also concerns about a manpower shortage and the city's ability to cope with increased pressure on tourism and other services. Work-life balance and remote working arrangements are also emerging as important issues. Compounding these challenges is an ongoing debate about Hong Kong's prospects as a global metropolis compared to other competitors.

Singapore has been stepping up its efforts to attract top talents in recent years, while Hong Kong has faced challenges related to its political climate and travel restrictions during the COVID-19 pandemic. This has resulted in Singapore gaining an edge in areas such as ESG hiring and fintech talent.

One of the key issues is that Hong Kong is experiencing a significant loss of workforce, exacerbated by the COVID-19 pandemic and other factors. In 2022, Hong Kong recorded a 2.4% decrease in the labour force, which is the biggest drop in history. Since 2018, the total labour force reduces by more than 5.51% from 3.99 million to 3.77 million. According to government documents, around 116,600 young Hong Kongers aged 18 to 39 left the workforce in the past two years. There is concern that the city failed to retain its young talent.



According to the census department documents, the number of labour age 15-29 reduced the most significantly from 654k in 2020 to 563.2k in 2022. In contrast, labour age 60 or above increased from 446.7k in 2020 to 499.5k in 2022.

There are ongoing efforts to reverse this trend, including the Technology Talent Admission Scheme , which allows non-local technology professionals to work in Hong Kong, and the Global Talent Visa program, which offers permanent residency for highly skilled and talented individuals. Along with these efforts, there have been calls for the government to invest in education and technology to develop local talent and address the skills gap. However, this issue is unlikely to be solved in the short term as the downward trend of labour is expected to continue in the next few years.