



2006/07/24 12:28 PM

 Urgent Return Receipt

To: <taxreform@fstb.gov.hk>

cc:

Subject: FW: HK Logistic Position/GST Impact

I am writing to express my view on the proposed GST:

1. Logistic is one of the strategic business (the other one shall be finance services) activities defined by the HK Government. I totally agree and HK does have the leading competitive edge on logistic industry, therefore the Government shall not propose any strategy against it unless the Government has better economy drivers and confirm that logistic business is no longer strategic.

The GST being proposed, will no doubt make the import/export/re-export and tax system more competitive and therefore increase the overall cost of the logistic business done through HK. Although there are suggestion by the proposal that bonded-warehouses/zones will be set up, we can express our bad experience on bonded-warehouses/logistic zones that it will certainly increase the time it takes to perform the logistic business and those bonded logistic warehouses/zones are always at high cost.

Considering the overall HK economy benefits, we shall keep HK as a free port to promote logistic business and not to impose GST.

2. Another point on the GST from the standpoint of current income/salary tax payer: it is not necessary beneficial to the 'middle class'. Although in some example calculation that the WORKING middle class may be compensated by the salary/income tax rate reduction, there are a lot of 'middle class' who are at their 40's and 50's and those close to retirement who have been shouldering most of the tax responsibility for many years. For these people, they should be retired with the salary/income tax as well since they have been paying very heavy tax. Now, by transferring some of the tax responsibility in to GST that a person has to pay until he dies. So in many cases, those 'middle class' people who have been paying a significant amount of income/salary tax (probably also in the form of property tax, property stamp duty and the expensive indirect tax through the price they paid for the property due to the very expensive land cost) will have to continue to pay tax after they retire. In fact they should also retire from income/salary tax payment since they have completed their tax obligation when they work and have salary/income. This is another rip-off from the poor middle class and it is unfair to them. If there are income/salary tax compensation for imposing GST, the Government shall consider to pay back the same % of compensation to everyone BACKDATE to the date of each one who started to work and pay salary/income tax with compound interest included.

The tax money a taxpayer paid to the government shall not only account for the current year Government expense. In many years, those money paid were in the form of surplus and has been kept as the Government reserve, including the foreign exchange reserve. The government shall improve the return rate for the investment to stabilize the income and not to further rip off all the people, not only the poor but also the middle class and even everybody.

I attached an email I communicated with our functional constituency legislator Mr. Sin referring the logistic business in HK from my company standpoint and brief discussion on GST from logistic business standpoint.

Regards

From: Tsui, John

Sent: Tuesday, July 18, 2006 10:46 AM

To: 'Sin Chung Kai [eNewsletter]'

Subject: HK Logistic Position/GST Impact

Dear Rt. Hon. Chung Kai, I have not communicated with you for a long time. As you are focus on the HK economy in addition to your IT interest, I would like to feedback some of the recent developments in our company that may be interested to you. Recently I had a lunch meeting with the ITAHK (to be changed to CAHK) Chairman Mr. Hubert Chan and some other members and we did mention about you as our important rep. in the Legislative Council.

Our company is the biggest electronics passive component and system manufacturing company in the world (you can refer to www.tycoint.com and www.tycoelectronics.com and www.tycoelectronics.com.hk). Hong Kong has been our strategic distribution hub for Asia. Due to mis-perception that it would be much cheaper and closer to the major customer clusters to set up the logistic hubs in China replacing the HK logistic hub, our top management decided to first reduce the capacity (size) of our HK warehouse and also outsource it so that the warehouse operation could be flexibly further reduced in coming future. The moved was objected by me and other HK management staff but the top management was misled. In fact, the move ended up with a disaster in January. During the disaster we decided to run the operation by ourselves and moved back to our original location of warehouse and ALSO expanded our warehouse operation by leasing another location in the Kowloon Godown (owned by Kowloon Wharf) in Kowloon Bay area. We did the move back during Chinese New Year when most to the HK Government officials were enjoying their holidays. Our pallet position now is about 13,500. My projection is that our operation will increase to at least 20,000 pallets in year 2009 at a turn of 12+. I hope you have an idea how big it is and I can tell you that this is the biggest in our industry in this kind of buisness and most the HK logistic people will know this. Now we convinced the top management the importance of HK as a logistic hub and they do agree to increase investment in HK logistic operation. We the HK team did it not because we wanted to keep our job but only for the real needs and it is agreed even by our China colleagues. For the reasons why we could not move most of the warehouse operation into China due to total cost, lead time and customs issues I can explain in great details. However, we face the problem to find a warehouse in HK that is big enough to keep the quantity of pallets of goods at our size in one warehouse and reasonable warehouse conditions (good warehouse shall be high headroom and not multi-story, good access condition etc). Now our warehouses are forced to be in 2 location in Kowloon Bay (in in Kowloon Godown as I mentioned). Worse thing is that Kowloon Wharf is planning to knock down the Kowloon Godown to re-develop the site into hotel and office building complex. Kowloon Wharf is just waiting for the government approval.

My reason to write to you is ask you to question the government the followings:

1. It has been both Tung Chi Kwa and Donald Tsang's focus on the HK economy saying that logistic is the strategic industry of HK. They are certainly correct and this idea is the only few they are right. However, other than the empty words, what have they done? Do they know companies could not find suitable warehouses in HK? What do they (including the responsible officials) know about logistic? Why they let many industry areas or warehouses to be re-developed into residential building/offices/hotel without considering replacement areas for logistic? How many warehouses in HK can keep a size of 10,000 to 20,000 pallets of goods (a standard pallet size 1.2mx1.05m(h)x0.8m)? I do believe the government will be misled by the big land developers who are short sighted in their profit. And they only know Li & Fung when talking about logistic. Logistic is not only virtual, it will involve physical goods movements. If the government allow to redevelop industry/warehouse areas without substitutions areas, there will be no hope on the HK logistic industry.
2. Do they really know the importance of keeping the logistic business in HK? I can tell you that as HK is now almost missing all manufacturing industries, the logistic business will be one of the key business that will help HK to develop good management talents, IT development and application experts...and the economy. I would rather the HK government had had made the site of the HK Disneyland as a logistic park so that the site could have employed a lot of managers, IT people, logistic people of all levels rather than only a few HK poor people as 'Mickey mouse actors' under 33 degree C above (probably now we the tax payers are loosing money on this Disneyland of the na-ve dream of Tung Chi Kwa with or without the opportuntiy cost considered)! For your interest, IT is very very important to make logistic business work properly and effectively. In fact, packaging switching (used in IP technology) idea was from physical goods transportation and now we use IT back in logistic business.
3. One of the key reason for HK be the choice of logistic hub for China and nearby countries (we support Korea as well) is the simple import/export formalities and the efficiency of the HK Customs

Excise Dept (this one you need to appreciate them). My concern now is on the GST in discussion. I would like to understand if the GST will affect the import/export formalities. I think I never heard anybody talking about this. To my understanding, once you have GST, you will have to have a GST (or value added tax) needed to be taxed during the import. In such as case, if it happens, effectively there will be a import tax and hence it will be the end of 'free port'. I do hope the GST will not affect the import/export so please watch how the GST works on import/export in addition to the retail level? I personally do not object the GST but my concern is on that if the GST will make the tax and import/export more complicated in HK that we will loose our edge. Do the Government know the real advantages of HK for logistic?

If you have time I would be pleased to explain to you how a real Global Company works in HK for China and nearby countries for logistic.

Rgds

John Tsui

General Sales Manager, Communications, Computer & Consumer Electronics China/HK