

**立法會**  
**Legislative Council**

LC Paper No. CB(1)506/08-09  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/CI/1

**Panel on Commerce and Industry**

**Minutes of special meeting  
held on Monday, 27 October 2008, at 2:30 pm  
in the Chamber of the Legislative Council Building**

- Members present** : Hon Vincent FANG Kang, SBS, JP (Chairman)  
Hon WONG Ting-kwong, BBS (Deputy Chairman)  
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Jeffrey LAM Kin-fung, SBS, JP  
Hon Andrew LEUNG Kwan-yuen, SBS, JP  
Hon Ronny TONG Ka-wah, SC  
Hon CHIM Pui-chung  
Hon Starry LEE Wai-king  
Dr Hon LAM Tai-fai, BBS, JP  
Hon Tanya CHAN  
Dr Hon Samson TAM Wai-ho, JP
- Members attending** : Hon Miriam LAU Kin-ye, GBS, JP  
Hon Tommy CHEUNG Yu-yan, SBS, JP
- Members absent** : Hon Fred LI Wah-ming, JP  
Hon Timothy FOK Tsun-ting, GBS, JP
- Public officers attending** : Mr Gregory SO, JP  
Acting Secretary for Commerce and Economic  
Development
- Miss Yvonne CHOI, JP  
Permanent Secretary for Commerce and Economic  
Development (Commerce, Industry and Tourism)

Mr James CHAN  
Principal Assistant Secretary for Commerce and  
Economic Development (Commerce and Industry)

Mr Joseph LAI Yee-tak, JP  
Director-General of Trade and Industry

Miss Belinda KWAN  
Assistant Director-General of Trade and Industry

Ms Karen KEMP  
Executive Director  
Hong Kong Monetary Authority

**Attendance by  
invitation**

: Federation of Hong Kong Industries

Mr Cliff SUN  
Deputy Chairman

Mr Dennis YAU  
Director-General

Hong Kong Foundry Association

Mr Vincent KONG  
Vice Chairman

Mr Eric SHI  
General Manager

Hong Kong Optical Manufacturers Association

Mr Max CHEUNG Wah-hing  
Executive Committee Member (Secretary)

Mr David CHOW Tak-fung  
Executive Committee Member (General Affairs)

Hong Kong Diecasting and Foundry Association

Mr LEE Yuen-fat  
Chairman

Mr Fred TAM  
Senior Vice-chairman

Hong Kong Flower Retailers Association

Mrs Elizabeth TSE WONG Siu-yin  
Chairman

Hong Kong Jewelry Manufacturers' Association

Mr Addy WONG  
Chairman

Mr Karl SHIN  
Associate Chairman & Consultant

Hong Kong and Kowloon Electrical Appliances  
Merchants Association

Mr Peter CHU Ka-lok  
Chairman

Hong Kong Shippers' Council

Mr Willy LIN  
Chairman

Mr Sunny HO  
Executive Director

Association of Auto Batteries and Tyres Industry

Mr Eric WONG Ho-chuen  
Chairman

Hong Kong Plastics Manufacturers Association Ltd

Mr Raymond CHAN  
Chairman

Mr LUK Pak-shing  
Vice Chairman

Hong Kong Chinese Prepared Medicine Traders  
Association

Mr TAM Kwok-leung  
Director

Ms CHOW Hoi-yan  
Capacity

Hong Kong Suppliers Association

Mr Albert TANG  
Government Policy Committee Chairman

Hong Kong Electro-plating Merchants Association

Mr Dennis K O NG  
Chairman

The Hong Kong Electronic Industries Association  
Limited

Prof K B CHAN  
Chairman

Dr WONG Chun  
Vice-chairman

Federation of Hong Kong Kowloon New Territories  
Hawker Associations

Mr TSANG Kam-ming  
Chairman

Mr WONG Yin-wa  
Secretary

The Hong Kong Metals Manufacturers Association

Mr Michael YU  
Chairman

Mr SZE Kam-shing  
Vice-chairman

The Hong Kong Chinese Importers' & Exporters'  
Association

Mr Rock CHEN Chung-nin  
Vice Hon Secretary

Hong Kong Catering Industry Association

Mr Thomas WOO  
Vice President

Hong Kong Metal Merchants Association

Mr TING Siu-kwan  
Chairman

Mr LAI Hin-fai  
Vice-chairman

Lok Fu Shopping Centre Commercial Concern Group

Mr Andie CHAN Wai-Kwan  
Chairman

Ms MA Lai-mei  
Committee Member

Hong Kong Association of International Co-operation  
of Small & Medium Enterprises

Mr SO Yu-lap  
Vice Chairman

SME Mentorship Association

Mr Anders WONG  
Chairman

Hong Kong Small and Medium Enterprises  
Development Association

Dr David KAM Shui-yung  
Chairman

HK (SME) Economic and Trade Promotional  
Association

Mr CHU Kong-hop  
Executive Vice President

Hong Kong Small and Medium Enterprises Association

Mr Wilson SHEA  
Vice Chairman

The Cosmetic & Perfumery Association of Hong Kong Ltd

Mr William TSUI  
President

The Association for Hong Kong Catering Services Management Ltd

Ms HO Yuk-sim  
Vice Chairman

SME Global Alliance

Mr Tommy LO Man-ho  
President

The Federation of Hong Kong Watch Trades & Industries Ltd

Mr WONG Yip-kong  
Vice Chairman

Mr TSE Wai-hang  
Honorary Advisor

Chinese Cuisine Management Association

Mr Danny NGAN  
Chairman

The Hong Kong Chamber of Small and Medium Business

Mr Dennis NG Wan-pun  
President

Hong Kong General Chamber of Commerce

Mr Alan WONG  
China Committee Chairman

**Clerk in attendance :** Ms YUE Tin-po  
Chief Council Secretary (1)3

**Staff in attendance** : Ms Annette LAM  
Senior Council Secretary (1)3

Mr KWONG Kam-fai  
Council Secretary (1)3

Ms May LEUNG  
Legislative Assistant (1)6

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Action

**I. Assistance to small and medium enterprises in coping with difficulties arising from the global financial turmoil**

(LC Paper No. CB(1)77/08-09(01) -- Administration's paper on proposed enhancement measures to the small and medium enterprise funding schemes

LC Paper No. CB(1)94/08-09(01) -- Paper on Funding Schemes for Small and Medium Enterprises prepared by the Legislative Council Secretariat (updated background brief)

LC Paper No. CB(1)106/08-09(01) -- Administration's response to issues raised at the Panel meeting on 21 October 2008

LC Paper No. FS08/08-09  
(Chinese version only) -- A summary of local press reports on the rescue packages introduced by places outside Hong Kong to cope with the financial crisis from 3 August 2007 to 22 October 2008)

Submission from deputation not attending the meeting

LC Paper No. CB(1)96/08-09(03) -- Submission from the Hong Kong Association of Banks dated 21 October 2008  
(English version only)

LC Paper No. CB(1)106/08-09(06) -- Submission from Hong Kong SME Forum dated 21 October 2008  
(Chinese version only)

LC Paper No. CB(1)141/08-09(10) -- Submission from the Hong Kong Association of Banks dated 24 October 2008  
(English version only)  
*(tabled at the meeting and subsequently issued via email on 28 October 2008)*

LC Paper No. CB(1)141/08-09(11) -- Submission from Hong Kong  
(Chinese version only) Promotion Association for Small  
(*tabled at the meeting and and Medium Enterprises Ltd dated*  
*subsequently issued via email on 24 October 2008)*  
*28 October 2008)*

Members noted that written submissions had been provided by three other deputations not attending the meeting, namely, the Hong Kong Association of Banks, Hong Kong SME Forum, and Hong Kong Promotion Association for Small and Medium Enterprises Ltd (LC Paper Nos. CB(1)96/08-09(03), CB(1)141/08-09(10), CB(1)106/08-09(06) and CB(1)141/08-09(11)).

Presentation by deputations

*Federation of Hong Kong Industries (FHKI)*  
(LC Paper No. CB(1)141/08-09(02) -- Submission (*Chinese version only*))  
(*tabled at the meeting and subsequently issued on 28 October 2008*)

2. Mr Cliff SUN, Deputy Chairman of FHKI expressed grave concern about the adverse impacts on SMEs due to the banks' recent substantial tightening of credit facilities. Referring to a recent survey conducted by FHKI among its members, he highlighted that about 40% of the respondents experienced tightening of standby facilities of the level ranging from 4% to 60%, while 10% of the respondents indicated that they were urged to repay their existing loans following immediate withdrawal of credit facilities by financial institutions. FHKI was worried that the prevailing poor business climate and further tightening of credit conditions, as well as the changing business environment due to policy adjustment in the Mainland, would lead to more business closing down, thus aggravating unemployment and weakening the economy of Hong Kong. As such, FHKI urged the financial institutions to continue providing robust credit facilities to ease SMEs' hardship during this difficult time. He said that FHKI welcomed the proposed enhancement measures to the SME Funding Schemes. FHKI also suggested the Hong Kong Export Credit Insurance Corporation (ECIC) expand its remit to provide cover for the payment risks arising from the buyers' failure to take delivery of goods.

*Hong Kong Foundry Association*

3. Mr Vincent KONG, Vice Chairman of Hong Kong Foundry Association opined that instead of focusing mainly on financial services, the Government should formulate long-term policies on the development of commerce and industry so as to sustain the success of the local economy. The Administration should gauge the views of stakeholders, including chambers of commerce and SME associations, to understand better the needs of the industry before deciding the way forward.



*Hong Kong Flower Retailers Association*

(LC Paper No. CB(1)96/08-09(01) -- Submission (*Chinese version only*))

4. Mrs Elizabeth TSE WONG Siu-yin, Chairman of the Hong Kong Flower Retailers Association suggested that the Administration should consider increasing the guarantee ratio of the SME Loan Guarantee Scheme (SGS) from the current 50% to 70%. She also called on the Administration to freeze the fees of public services relating to business operation and suspend the introduction of legislation on minimum wage so as to ease the financial burden on SMEs. In order to facilitate the recovery of local economy, the Administration should take the initiative to stimulate local consumption.

*Hong Kong Optical Manufacturers Association (HKOMA)*

5. Mr Max CHEUNG Wah-hing, Executive Committee Member (Secretary) of HKOMA said that since 95% of the enterprises in the optical manufacturing sector had already set up their operations in the Pearl River Delta (PRD) Region, HKOMA called on the Administration to relay to the Mainland authorities the request of the enterprises for waiving or reducing tax and fees, so as to reduce their operating costs amidst the financial turmoil. Consideration should also be given to extending the domestic sales of local SMEs in the Mainland market. In addition, the Administration should strengthen support to the logistics sector to benefit Hong Kong-owned enterprises operating in the Mainland.

*Hong Kong Diecasting and Foundry Association*

(LC Paper No. CB(1)106/08-09(02) -- Submission (*Chinese version only*))

6. Mr LEE Yuen-fat, Chairman of the Hong Kong Diecasting and Foundry Association said that SMEs in the diecasting and foundry sector were facing increasing difficulty arising from the changing business environment due to policy adjustment in the Mainland. He also expressed concern about the tightening of credit facilities by banks after the outbreak of the financial turmoil. To enable SMEs to sustain their business, he urged the Administration to strengthen communication with the banking sector, with a view to encouraging the banks to continue providing robust credit facilities to the manufacturing industry.

*Hong Kong Jewelry Manufacturers' Association*

(LC Paper No. CB(1)106/08-09(03) -- Submission (*Chinese version only*))

7. Mr Addy WONG, Chairman of the Hong Kong Jewelry Manufacturers' Association urged the Administration to implement the proposed enhancement measures to the SME Funding Schemes as soon as possible, and to increase the guarantee ratio of SGS from the current 50% to 75% or above. He also suggested that ECIC should increase indemnity ratios for exporters' insured items. To ease the burden on SMEs, the Administration should consider allowing businesses to hold over the payment of provisional profit tax, and to convey to the Mainland authorities their request for suspending the implementation of laws and policies which might have adverse impacts on Hong Kong-owned enterprises operating in

the Mainland.

*Hong Kong and Kowloon Electrical Appliances Merchants Association*

8. Mr Peter CHU Ka-lok, Chairman of the Hong Kong and Kowloon Electrical Appliances Merchants Association shared other deputations' concern about the tightening of credit facilities by banks. He urged the financial institutions to cease withdrawing standby facilities from SMEs and suspend the arrangement of deferring payment to retail merchants in respect of credit card transactions. Meanwhile, the Administration should consider expanding the remit of the SME Funding Schemes, which aimed at supporting manufacturing industry, to include the wholesale and retail industries.

*Hong Kong Shippers' Council*

(LC Paper No. CB(1)153/08-09(01) -- Submission (*Chinese version only*))  
(*tabled at the meeting and subsequently issued on 31 October 2008*)

9. Mr Willy LIN, Chairman of the Hong Kong Shippers' Council suggested that the Administration should consider setting up an import and export bank, similar to that adopted by some overseas jurisdictions, to provide one-stop service of export credit insurance, currency exchange and other related financial and credit facilities to exporters. Pointing out the crucial role of the logistic industry in the export trade, he urged the Administration to introduce a registration and licensing system to regulate the industry, probably through a new regulatory authority.

*Association of Auto Batteries and Tyres Industry*

(LC Paper No. CB(1)96/08-09(02) -- Submission (*Chinese version only*))

10. Mr Eric WONG Ho-chuen, Chairman of Association of Auto Batteries and Tyres Industry expressed concern about the hardship faced by the wholesale and retail business due to difficulties in securing loans from banks. He opined that the Government should consider providing loans and credit facilities directly to SMEs if the banking sector remained reluctant to provide financial support to them.

*Hong Kong Plastics Manufacturers Association Ltd*

11. Mr Raymond CHAN, Chairman of the Hong Kong Plastics Manufacturers Association Ltd said that many SMEs, particularly those with operations in the PRD Region, were suffering immense hardship in operating their business arising from the changing business environment due to policy adjustment in the Mainland. As such, he called on the Administration to convey SMEs' request to the Mainland authorities for suspending the implementation of laws and policies which might have adverse impacts on Hong Kong-owned enterprises operating in the Mainland. Consideration should also be given to reducing fees as well as providing concessions to the enterprises concerned.

*Hong Kong Chinese Prepared Medicine Traders Association*  
(LC Paper No. CB(1)106/08-09(04) -- Submission (*Chinese version only*))

12. Mr TAM Kwok-leung, Director of the Hong Kong Chinese Prepared Medicine Traders Association said that the requirement for undergoing various test on safety, quality and efficacy of products for the registration of Proprietary Chinese Medicines imposed great financial burden on the industry as the preparation for such tests incurred a substantial cost. He urged the Administration to suspend such testing requirement so as to alleviate the hardship of the industry amidst the financial turmoil.

*Hong Kong Suppliers Association (HKSA)*  
(LC Paper No. CB(1)141/08-09(03) -- Submission (*English version only*))  
(*tabled at the meeting and subsequently issued on 28 October 2008*)

13. Mr Albert TANG, Government Policy Committee Chairman of HKSA expressed grave concern about banks' reluctance to provide loans to SMEs. HKSA urged the financial institutions not to tighten credit and trust receipt terms on the trade. HKSA was disappointed that the wholesale and retail industries that provided goods and service for local consumption could hardly benefit from the proposed enhancement measures to the SME Funding Schemes. HKSA considered that the Administration should review the guarantee ratio of SGS with the banking sector. As an alternative, the Administration should directly provide loans to SMEs instead of just acting as a guarantor. Consideration should also be given to extending the export credit insurance scheme to cover local sales.

*The Hong Kong Electronic Industries Association Limited*

14. Prof K B CHAN, Chairman of the Hong Kong Electronic Industries Association Ltd opined that the Administration should urge the banks to stop withdrawing credit facilities and requesting for immediate repayment of existing loans from SMEs, to avoid further aggravation of the credit crunch. He suggested that the Administration should liaise with the banking sector to consider extending the repayment deadline of loans, and providing revolving loan with a longer maturity period for healthy enterprises. He agreed to the suggestion that ECIC should expand its remit to provide cover for the payment risks arising from the buyers' failure to take delivery of goods. He also called on the Administration to relay the SMEs' request to the Mainland authorities for suspending the implementation of laws and policies which might have adverse impacts on Hong Kong-owned enterprises operating in the Mainland.

*Hong Kong Electro-plating Merchants Association*

15. Mr Dannis K O NG, Chairman of the Hong Kong Electro-plating Merchants Association shared other deputations' concerns about the hardship of SMEs, particularly those with operations in the PRD Region, and he also shared Prof CHAN's views on credit facilities.

*Federation of Hong Kong Kowloon New Territories Hawker Associations*  
(LC Paper No. CB(1)141/08-09(04) -- Submission (*Chinese version only*))  
(tabled at the meeting and subsequently issued on 28 October 2008)

16. Mr TSANG Kam-ming, Chairman of the Federation of Hong Kong Kowloon New Territories Hawkers Associations urged the Link Management Limited (LML) to suspend rent increase of its shopping arcades. He also requested the Administration to waive the rental of public markets and the hawker licence fees for three months.

*The Hong Kong Metals Manufacturers Association (HKMMA)*

17. Mr Michael YU, Chairman of the HKMMA referred to a recent survey conducted by HKMMA and highlighted that about 30% of respondents to the survey experienced tightening of credit facilities, while 40% of respondents expected the Administration to raise the guarantee ratio of SGS. He further said that 80% of respondents expected the Government to provide loans directly to SMEs at low interest rate. In this connection, HKMMA urged the Administration to discuss with financial institutions ways to improve the liquidity of enterprises by making reference to account receivable provided by the enterprises concerned when approving loans. HKMMA also urged the Administration to negotiate with the Mainland authorities for suspending the implementation of laws and policies which might have adverse impacts on Hong Kong-owned enterprises operating in the Mainland.

*The Hong Kong Chinese Importers' & Exporters' Association*  
(LC Paper No. CB(1)141/08-09(05) -- Submission (*Chinese version only*))  
(tabled at the meeting and subsequently issued on 28 October 2008)

18. Mr Rock CHEN Chung-nin, Vice Honorary Secretary of the Hong Kong Chinese Importers' & Exporters' Association suggested that the Administration should further enhance the SME Funding Schemes and the functions of ECIC to strengthen support to SMEs. The Administration should also negotiate with the Mainland authorities for waiving/reducing fees and tariffs affecting operating costs and suspending the implementation of laws and policies which might have adverse impacts on Hong Kong-owned enterprises operating in the Mainland.

*Hong Kong Catering Industry Association*

19. Mr Thomas WOO, Vice President of the Hong Kong Catering Industry Association opined that the Administration should extend the scope of SGS to cover the non-manufacturing industries, including the catering industry. He suggested the Administration set an example by waiving or reducing public charges and fees relating to business operation. The Administration should also take measures to lower the retail prices for fresh pork and chicken.

*Hong Kong Metal Merchants Association*  
(LC Paper No. CB(1)141/08-09(06) -- Submission (*Chinese version only*))  
(tabled at the meeting and subsequently issued on 28 October 2008)

20. Mr TING Siu-kwan, Chairman of the Hong Kong Metal Merchants Association urged the Administration to further enhance the SME Funding Schemes to address the needs of the wholesale and retail industries. He considered that the Administration should strengthen communication with the financial institutions and take up a leading role to provide direct funding support to SMEs.

*Hong Kong Association of International Co-operation of Small & Medium Enterprises*  
(LC Paper No. CB(1)106/08-09(05) -- Submission (*Chinese version only*))

21. Mr SO Yu-lap, Vice Chairman of the Hong Kong Association of International Co-operation of Small & Medium Enterprises suggested that in addition to the measures proposed by the deputations, the Administration should formulate measures to allow the change of vacant industrial buildings so as to attract Hong Kong-owned enterprises operating in the Mainland to relocate their production base back to Hong Kong, thus providing more job opportunities. He also called on the Administration to help enterprises explore business opportunities in emerging markets and the Mainland domestic market.

*Lok Fu Shopping Centre Commercial Concern Group*

22. Mr Andie CHAN Wai-Kwan, Chairman of Lok Fu Shopping Centre Commercial Concern Group expressed grave concern about the sharp increase of rents in shopping arcades under the LML, and the banks' recent arrangement to defer payment to retail merchants for credit card transactions. He called on the Government to consider buying back the shares of the Link Real Estate Investment Trust so that the Government could resume the role of a major shareholder and take over the control of the rental policy for shopping arcades under LML. The Administration should consider making an industry-specific and short-term arrangement, such as providing 100% credit guarantee for SMEs with difficulties, by making reference to the "Loan Guarantee Scheme (SARS) for Severe Acute Respiratory Syndrome Impacted Industries" introduced in 2003.

*SME Mentorship Association*

23. Mr Anders WONG, Chairman of SME Mentorship Association shared the view that the proposed enhancement measures might not fully address the needs of SMEs. He suggested that while maintaining the overall maximum guarantee for each SME at \$6 million under SGS, the Government should establish a fund to provide loans directly to enterprises up to a limit of \$500,000 each or provide 100% guarantee for the first \$500,000 of the loan arranged by banks, followed by 70% guarantee for the next \$1.5 million and 50% guarantee for the remaining \$4 million. The guarantee could be recycled within two years after the loan was fully repaid.

He believed such measures could address the short-term needs of SMEs and help restore the banks' confidence in providing loans to SMEs.

*Hong Kong Small and Medium Enterprises Development Association*

24. Dr David KAM Shui-yung, Chairman of Hong Kong Small and Medium Enterprises Development Association welcomed the enhancement measures to the SME Funding Schemes and urged the banks to stop tightening the credit facilities to SMEs as well as to fulfill their social responsibility of providing loans to SMEs during this difficult time.

*HK (SME) Economic and Trade Promotional Association*

25. Mr CHU Kong-hop, Executive Vice President of HK (SME) Economic and Trade Promotional Association appealed to the Government to allow SMEs to hold over the payment of provisional profit tax for two years and to pay the profit tax for 2007-2008 by phases.

*Hong Kong Small and Medium Enterprises Association*

26. Mr Wilson SHEA, Vice Chairman of Hong Kong Small and Medium Enterprises Association suggested the Administration to raise the guarantee ratio of SGS from the current 50% to 80%. He held the view that the Administration should consider establishing funds to directly provide credits to healthy enterprises if the financial institutions were reluctant to provide loans to SMEs. Other measures, such as waiving or lowering the fees for public services relating to business operation, should also be introduced as soon as possible.

*The Cosmetic & Perfumery Association of Hong Kong Ltd*

(LC Paper No. CB(1)141/08-09(07) -- Submission (*Chinese version only*))  
(*tabled at the meeting and subsequently issued on 28 October 2008*)

27. Mr William TSUI, President of the Cosmetic & Perfumery Association of Hong Kong Ltd, suggested that in addition to the measures suggested by deputations, the Administration should consider suspending the introduction of accreditation of qualifications in the industry and reviewing the current regulation on beauty treatment devices since these measures had been affecting the development of the beauty and hairdressing industry.

*The Association for Hong Kong Catering Services Management Ltd*

28. Ms HO Yuk-sim, Vice Chairman of the Association for Hong Kong Catering Services Management Ltd shared the concern about the difficulties faced by the catering industry. She called on the Administration to monitor the fees of public utilities directly affecting the operation costs of the catering industry.

*SME Global Alliance*

29. Mr Tommy LO Man-ho, President of SME Global Alliance said that in addition to the measures suggested by deputations attending the meeting, the Administration should establish a business-friendly environment to attract more investment to Hong Kong and set up a council to foster the development of SMEs. The Administration should facilitate the development of other service sectors, such as environmental protection, elderly services, education and information technology, instead of relying solely on financial services.

*The Federation of Hong Kong Watch Trades & Industries Ltd*

30. Mr WONG Yip-kong, Vice Chairman of the Federation of Hong Kong Watch Trades & Industries Ltd agreed to the measures suggested by other deputations. He opined that the eligibility for applying SGS and ECIC's insurance facilities should be relaxed.

*Chinese Cuisine Management Association*

31. Mr Danny NGAN, Chairman of Chinese Cuisine Management Association expressed concern about the difficulties faced by SMEs, in particular the rising operating costs. He opined that minimum wage should be determined by the market rather than by legislation.

*The Hong Kong Chamber of Small and Medium Business*

(LC Paper No. CB(1)141/08-09(08) -- Submission (*Chinese version only*))  
(*tabled at the meeting and subsequently issued on 28 October 2008*)

32. Mr Dennis NG Wan-pun, President of the Hong Kong Chamber of Small and Medium Business welcomed the proposed enhancement measures of the SME Funding Schemes. He agreed that more efforts should be made across bureaux and departments to provide timely assistance to ease the burden on SMEs amid the financial turmoil. The Administration should waive the rents of public markets for two months and freeze the fees of public services. He also called on the Administration to consider increasing the subsidy under the Continuing Education Fund so as to strengthen the competitiveness of local employees. To address the emotional problems arising from the financial turmoil and subsequent deterioration of economic climate, the Administration should consider deploying more resources on counselling services.

*Hong Kong General Chamber of Commerce (HKGCC)*

(LC Paper No. CB(1)141/08-09(09) -- Submission (*Chinese version only*))  
(*tabled at the meeting and subsequently issued on 28 October 2008*)

33. Mr Alan WONG, China Committee Chairman of HKGCC said that the HKGCC welcomed the proposed enhancement measures to the SME Funding Schemes and urged the Finance Committee (FC) to approve the proposal as soon as possible. The Administration should be cautious about introducing the legislation

of minimum wage and consider establishing a committee to study the basis and the mechanism for setting the level of minimum wage.

Briefing by the Administration

34. The Acting Secretary for Commerce and Economic Development (Atg SCED) thanked deputations for their views and suggestions which the Administration would take into consideration when drawing up support measures for the SMEs. Stressing that the Administration was fully aware of the hardship that the financial turmoil had caused to the SMEs and their requests for greater assistance from the Government, he assured members that further support measures, once ready and approved by the Legislative Council, would be implemented expeditiously to help alleviate the burden on SMEs.

35. On SMEs' concern about lending institutions' reluctance to provide credit facilities, the Executive Director (Banking Policy) of the Hong Kong Monetary Authority (ED(BP)/HKMA) said that HKMA had urged banks not to indiscriminately tighten credit. HKMA would continue to liaise with banks to explore ways to address their concerns about lending to the SME sector. HKMA would also issue a circular to banks urging them to be accommodative to the funding and liquidity needs of their customers, including SMEs, within the bounds of prudent credit assessment during this difficult time.

*(Post-meeting note: The HKMA had issued a circular on 29 October 2008 urging banks to adopt a supportive attitude towards their SME customers.)*

36. On the SME Funding Schemes, the Director-General of Trade and Industry Department (DG/TID) advised that more than 20 000 applications for funding totaling \$10.3 billion had been approved since the inception of the SME Loan Guarantee Scheme (SGS) in 2001. Regarding the scope of SGS, he clarified that in addition to the manufacturing industry, the service industry, such as the catering and logistics industries, could make use of the Business Installations and Equipment Loan (BIE) for acquiring equipment such as tables, kitchen facilities and vehicle fleet. The scope of the Working Capital Loan (WCL) was broad enough to benefit various sectors. It was expected that the package of enhanced support measures including the removal of sub-ceilings for the BIE and the WCL, when approved by the FC, would bring added convenience and flexibility to SMEs.

37. On liaison with the Mainland authorities, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) said that the Government of the Hong Kong Special Administrative Region (the HKSAR Government) had all along maintained close contact with both the Central Government and various provincial and municipal governments to convey to them the difficulties and concerns of Hong Kong-owned enterprises operating in the Mainland, and to explore measures to assist these enterprises. The Central Government had responded positively, for example, by recently increasing the export tax rebate rates for about 3 000 items, putting on hold individual measures or delaying implementation of some policies that might have



adverse impact on enterprises concerned. In addition, individual provinces and municipalities (e.g. Guangdong and Dongguan) had also introduced a number of support measures, such as reduction or exemption of administrative levies and enhancement in customs clearance services, in order to reduce the business operating costs of enterprises and helping them raise fund. The HKSAR Government would continue to liaise with the Mainland authorities at various levels through different channels to provide appropriate assistance to Hong Kong businessmen, in particular the SMEs.

### Discussion

#### *Bank credit facilities*

38. Mr Andrew LEUNG noted the deputations' concerns about cash flow, liquidity, tightening of credits by banks, and possible adverse impact of policy adjustments and the implementation of new laws/policies in the Mainland. On banks' tightening of credit to SMEs, Mr LEUNG doubted whether the circular to be issued by the HKMA would make financial institutions relax their credit squeeze on SMEs. He also asked what other concrete measures would be put in place to get the banks resume normal credit flow to SMEs.

39. Mr Jeffrey LAM opined that the Government should devise specific measures that would boost banks' confidence in lending to SMEs rather than merely urging banks to relax their credit facilities. He noted with concern that the banks' reluctance to extend loans to SMEs would lead to more business closing down, thus aggravating unemployment and undermining social stability. Mr LAM said that SMEs, which was the backbone of Hong Kong's economy, had always been the driving force in turning the battered economy around after each financial crisis in Hong Kong. The Government should therefore provide every assistance to help preserve financially viable enterprises.

40. Mrs Sophie LEUNG said that it had been brought to her attention that a number of lending institutions had either withdrawn or cut back on loans to their SME customers. Even enterprises with good repayment record were now facing liquidity problem. While it was understandable that banks would exercise extra care in lending in the face of the global credit crunch, Mrs LEUNG hoped that the Administration/HKMA and the Hong Kong Association of Banks would impress upon the financial institutions that a collapse of SMEs would lead to job losses and set off a domino effect on the overall economy. She urged the banking sector to refrain from an indiscriminate tightening of credit across the board.

41. Ms Emily LAU expressed regret that no representatives from the banking sector were present at the meeting. While she agreed that banks should be prudent in their credit assessment, she hoped that the banking sector would, within the bounds of prudent risk management, suitably relax their credit lines to financially viable enterprises to avoid worsening of unemployment problem.

42. Mr Tommy CHEUNG pointed out that the banks' unilateral withdrawal or reduction of credit facilities, coupled with the extension of the period for making payments to retail merchants in respect of credit card transactions, had created cash flow problems for the catering industry and disrupted its usual mode of operation. He urged the Administration and the HKMA to step up communication with the banking sector and put in place specific measures to address the banks' credit grip on SMEs.

43. Sharing a similar view, Miss Tanya CHAN called on the Administration/HKMA to follow up on the banks' deferral of payment to retail merchants for credit card transactions which had adversely affected the daily operation of the retail, catering and tourism industries.

44. In response, ED(BP)/HKMA said that in addition to issuing the circular to banks, the HKMA had been discussing with banks other issues such as the deferral of payments to retail merchants for credit card transactions, the shortening of trust receipt periods, and the increases in interest rates margin. She said that any tightening of credit to an SME customer should, as far as practicable, be considered on the merit of each case in the light of the customer's credit position rather than applied across the board to SMEs within the same industry or sector. However, banks should be allowed to conduct their own prudent credit assessments. HKMA had no powers to force banks to extend loans to any customer on any specified terms, and could only impress upon them that tightening credit indiscriminately would have an adverse impact on the overall economy. In this regard, she noted that Mr Joseph YAM, the Chief Executive of the HKMA, had appealed to the banking sector that it would be in nobody's interests to upset the business environment by tightening credit across the board indiscriminately.

45. Citing the banks' agreement to buy back Lehman Brothers mini bonds as an example, Dr LAM Tai-fai remarked that, with due effort and determination, the Administration should be able to similarly urge the banking sector to stop the indiscriminate tightening of credit to SMEs.

*Further enhancement to the SME Funding Schemes*

46. While expressing support for early implementation of the proposed enhancement measures to the SME Funding Schemes, Mr Jeffrey LAM urged the Administration to consider some deputations' requests of extending the scope of the schemes, raising the loan ceiling and increasing the loan guarantee ratio of the SGS so that more industries, including the large and medium sized enterprises, could benefit from the Schemes.

47. Mrs Sophie LEUNG, called on the Administration to increase the Government loan guarantee ratio of the SGS to 70% or above. She further appealed to the deputations to seek ways to help themselves instead of relying solely on the Government and the banking sector for assistance.

48. Ms Emily LAU said that following the Panel discussion of the Administration's proposed enhancement measures on 21 October 2008 and upon hearing the views and suggestions from deputations at this special Panel meeting, FC would hold a special meeting on 28 October 2008 to consider the funding proposal. She enquired how soon the new measures would be implemented following FC approval.

49. In response, DG/TID said that it was the Government's intention to roll out the enhanced schemes soonest possible. Subject to FC approval on 28 October 2008, the enhanced measures of the Export Marketing Fund (EMF) were targeted to be implemented with effect from 3 November 2008. To prepare for early implementation of the SGS upon FC approval, discussions were underway with PLIs on the terms of the draft agreement for the enhanced SGS. The enhanced SGS would be rolled out as soon as some four to five PLIs had completed the legal procedures with the Government and were ready to accept applications. Public announcement on the new arrangements would be made, and information on the TID website would be updated from time to time once more PLIs signed up to join the improved scheme.

*(Post-meeting note: Following FC's approval on 28 October 2008, the enhanced EMF and SGS were implemented on 3 November and 6 November 2008 respectively.)*

*Business operating costs*

50. Referring to the deputations' concerns about the high operating costs, Mr Jeffrey LAM called on the Administration to consider their suggestions to hold over the payment of provisional tax and profit tax, waive Government rates and rents, and lower or freeze the fees of public services relating to business operation to ease the plight of SMEs.

51. Miss Tanya CHAN shared the view that the Administration should explore longer-term measures to lower the operating costs for SMEs to facilitate their business operation.

52. In this connection, Mr Tommy CHEUNG suggested the Administration to consider lowering the rents for public markets/food stalls/restaurants operating in public housing estates to help reduce the operating costs of these businesses.

53. While supporting the proposed measures to reduce operating costs, Mr Ronny TONG considered the long-term measures too remote to meet SMEs' need for short-term and urgent credit facilities. He said that interim short-term measures should be introduced expeditiously to provide immediate relief to needy SMEs. He referred to the suggestion made by the SME Mentorship Association that the Government should establish a fund to provide loans directly to enterprises up to a limit of \$500,000 per SME. He considered the suggestion worth pursuing and called on the Administration to assess its viability to help solve SMEs' liquidity problem.

*Further support measures for SMEs*

54. Mr Tommy CHEUNG said that the Liberal Party was very concerned about the difficulties of the SMEs in face of the economic downturn. Referring to the "SARS Impacted Industries" introduced during the SARS period to provide 100% loan guarantee for four specific industries, Mr CHEUNG urged the Administration to consider making similar arrangements to help the retail and catering industries.

55. Ms Emily LAU noted that a total of 1 560 applications involving an aggregate loan amount of about \$500 million were approved under the "Loan Guarantee Scheme for SARS Impacted Industries" and that the application period lasted for only three months. She also noted that the Government received and effected payment to 162 claims from the lending institutions, and the loan default rate as at end September 2008 was 4.9%. In this connection, she urged the Administration to seriously reconsider introducing similar arrangements to help address SMEs' cash flow problem amidst the present financial crisis which many people considered as more ferocious than that during the SARS period.

56. Miss Tanya CHAN called on the Administration to assess the feasibility of making an industry-specific and short-term arrangement similar to the "Loan Guarantee Scheme for SARS Impacted Industries" to help ease the liquidity problem of certain industries. She pointed out that with adequate safeguards built in the scheme and a loan default rate of 4.9%, which was much lower than the presumed rate of 7.9%, the banks would be reasonably well protected under the scheme.

*Measures to stimulate economy*

57. Dr LAM Tai-fai remarked that many of the problems confronting the SMEs were due to the deterioration in the external economic environment which was beyond their control rather than arising from their mismanagement. The Administration should therefore take prompt actions to provide timely support in response to SMEs' call for greater assistance. Dr LAM further criticized the Administration for the lack of a comprehensive long-term strategy for commerce and industrial development in Hong Kong. He urged the Administration to review the existing policies and formulate medium and longer-term strategies to revive the economy.

58. Mr Tommy CHEUNG shared the same concern. He called on the Administration to formulate comprehensive plans to encourage spending and stimulate domestic demands which would boost up the local economy.

59. Referring to the Australian Government's handing out cash to the lower socio-economic groups to encourage spending and domestic consumption, Mr Ronny TONG opined that the Administration should draw up similar short-term measures to stimulate the economy, in addition to implementing large-scale infrastructure projects to sustain growth and development in the long-term.

Way forward

60. Atg SCED thanked members and deputations for the suggestions made at this meeting and at the SME Summit held on 23 October 2008. He said that CEDB was liaising with the relevant bureaux, departments and relevant support organizations to actively examine the feasibility of the suggestions received. In addition to the proposed enhancement measures to the SME Funding Schemes, the ECIC, in response to the industry's call for greater assistance, had taken prompt action to introduce a number of new measures to enhance the support for exporters. He assured members that the Government was committed to providing appropriate support for the SMEs amidst the global financial turmoil. In this connection, the Financial Secretary had convened an inter-departmental meeting to study various options to help SMEs.

61. Summing up the discussion, the Chairman thanked the deputations for attending the meeting to present their views and concerns. Noting the general consensus among members that more support should be provided to help SMEs, he urged the Administration to actively assess the feasibility of various proposed measures, such as raising the loan guarantee ratio and implementing a short-term sector-specific assistance scheme similar to the loan scheme introduced during the SARS period. He also called on the Administration to implement the enhanced SME Funding Schemes as early as practicable following FC's approval, and to follow up with the banking sector on measures to improve the liquidity of SMEs.

62. Members agreed to follow up the related issues and requested the Administration to update the Panel on the support measures to assist SMEs in coping with difficulties arising from the global financial turmoil.

*(Post-meeting note: A special meeting was scheduled for 12 November 2008 to discuss "Progress update on the support measures for small and medium enterprises arising from the global financial turmoil".)*

**II. Any other business**

63. There being no other business, the meeting ended at 4:50 pm.