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Legislative Council

LC Paper No. CB(1)737/08-09
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Panel on Commerce and Industry

Minutes of special meeting
held on Wednesday, 12 November 2008, at 9:30 am
in Conference Room A of the Legislative Council Building

Members present	:	Hon Vincent FANG Kang, SBS, JP (Chairman) Hon WONG Ting-kwong, BBS (Deputy Chairman) Hon Fred LI Wah-ming, JP 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 Starry LEE Wai-king Dr Hon LAM Tai-fai, BBS, JP Hon Tanya CHAN Dr Hon Samson TAM Wai-ho, JP
Members attending	:	Hon James TO Kun-sun Hon Miriam LAU Kin-yee, GBS, JP Hon Abraham SHEK Lai-him, SBS, JP Hon Tommy CHEUNG Yu-yan, SBS, JP Hon Paul TSE Wai-chun
Members absent	:	Hon Timothy FOK Tsun-ting, GBS, JP Hon CHIM Pui-chung
Public officers attending	:	Mrs Rita LAU NG Wai-lan, JP Secretary for Commerce and Economic Development

Mr Gregory SO, JP
Under Secretary for Commerce and Economic Development

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)

Ms Linda LAI, JP
Deputy Secretary for Commerce and Economic Development (Commerce and Industry)1

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

Miss Vivian LAU Lee-kwan
Deputy Director-General of Trade and Industry (Commercial Relations, Controls & Support)

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

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

Ms Debbie SIU
Legislative Assistant (1)6

Action

I. Progress update on the support measures for small and medium enterprises arising from the global financial turmoil

(LC Paper No. CB(1)189/08-09(01) -- Administration's paper on further support measures for small and medium enterprises

LC Paper No. CB(1)141/08-09(01) -- Administration's paper on the summary of views received from the SME Summit held on 23 October 2008

LC Paper No. CB(1)189/08-09(02) -- Circular on lending to small and medium-sized enterprises issued by the Hong Kong Monetary Authority on 29 October 2008 (English version only)

LC Paper No. CB(1)189/08-09(03) -- Hon Emily LAU's question on assistance to small shop tenants at the Council meeting on 29 October 2008 and the Administration's reply

LC Paper No. CB(1)189/08-09(04) -- Hon LAM Tai-fai's question on assistance to small and medium enterprises at the Council meeting on 5 November 2008 and the Administration's reply

LC Paper No. CB(1)189/08-09(05) -- Paper on summary of deputations' views received at the special meeting on 27 October 2008 prepared by the Legislative Council Secretariat)

Briefing by the Administration

At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) briefed members on further support measures to relieve the difficulties of the small and medium enterprises (SMEs) who were facing considerable difficulties, in particular with liquidity, in the global financial crisis and credit crunch. Details of the proposed measures which included the setting up of a Special Loan Guarantee Scheme (SpGS) for SMEs and the enhanced services of the Export Credit Insurance Corporation (ECIC) were set out in the Administration's paper (LC Paper No. CB(1)189/08-09(01)).

2. SCED said that the Government was highly concerned about the difficulties faced by SMEs. In response to the industry's call for greater support, the proposed SpGS and additional measures were introduced to help facilitate SMEs in obtaining immediate cash flow relief from the commercial lending market and to provide SMEs with greater flexibility and convenience in obtaining credit facilities to maintain their operations and develop new markets. She appealed to members' support of the proposal, which would be submitted to the Finance Committee (FC) for approval. In this respect, she hoped that a special FC meeting could be convened as early as practicable. Subject to FC approval, the SpGS would be implemented as soon as possible upon completion of necessary legal procedures with the participating lending institutions (PLIs).

Discussion

Bank credit facilities

3. Mr Andrew LEUNG commended the Administration for the prompt action in putting forward the additional measures to ease the liquidity problem of the SMEs. He said that the proposed revolving credit line of up to $500,000 in particular would provide SMEs with greater flexibility and the immediate cash flow relief during the coming Christmas and New Year festive seasons. Despite the increase in Government loan guarantee ratio to 70%, Mr LEUNG was concerned whether the lending institutions would respond positively to the SpGS and resume normal credit flow to SMEs. He enquired what substantive measures the Administration would put in place to ensure that the banking sector would relax its credit facilities to SMEs.

4. Mr WONG Ting-kwong shared the same concern about the lending institutions' reluctance to re-capitalize SMEs, and doubted whether SMEs with no property or assets to serve as loan security would be able to benefit from the schemes. He said that quite a number of companies in the service and catering industries were on the brink of closing down, while some manufacturers/exporters were facing liquidity problem arising from buyers' refusal to take delivery of goods or rescinding orders at last minute. He urged the Administration to work with the lending institutions on ways and means to provide practical and immediate assistance for these SMEs.

5. In response, SCED said that the SpGS was drawn up following discussions with the banking sector. Some PLIs of the existing SME Loan Guarantee Scheme (SGS) had responded positively to the SpGS. With the Government assuming a larger share of the loan default risk, it was expected that PLIs would be more forthcoming in granting credit facilities to SMEs while upkeeping their risk assessment standards in processing the loan applications. She said that while the provision of credit to SMEs and the terms of the loans were commercial decisions of PLIs, the Administration had urged the lending institutions to be accommodating and flexible to the funding needs of SMEs, within the bounds of prudent credit assessment, and to examine individual case on its merits instead of tightening credit across the board indiscriminately. To cover exporters' business risks and address their liquidity problems, the ECIC had adopted a series of measures such as providing insurance cover for buyers' payment default and failure to take delivery of goods which were generally not insurable in the market.

6. Mr Jeffrey LAM expressed support for the Hong Kong Trade Development Council's $120 million initiative to assist exhibitors/exporters and to boost orders from overseas for local SMEs products and services. He however considered these measures inadequate to address SMEs' immediate liquidity problem as it would take time for exhibitors/exporters to receive orders from buyers. He called on the Administration to discuss with the financial institutions specific ways to improve SMEs' liquidity such as by providing additional credit lines pending the receipt of orders which might came late in February/March 2009, and also by

making reference to account receivable and orders received by enterprises concerned when approving loans. The Chairman, Mr Andrew LEUNG, Mr WONG Ting-kwong and Mr Tommy CHEUNG opined that the enterprises were in critical need of quick cash to ease the immediate liquidity problem, and that the situation called for prompt and decisive actions by the Administration to avoid further aggravation of the credit crunch.

7. SCED noted the suggestion and highlighted that the Administration, in collaboration with the Hong Kong Monetary Authority (HKMA), had been in close liaison with the banking sector to discuss ways to improve the operation of Government loan guarantee schemes, streamline the loan application procedures and expedite the vetting and processing of loan applications. Areas being looked at included the credit risk assessment criteria and factors to be considered in vetting loan applications. To facilitate loan applications, measures such as the use of a standardized application form and formulation of standard guidelines on application procedures and documentation requirements for loan application were being explored.

Interest rates for the SpGS

8. Referring to the series of interest rate cuts in a number of advanced economies, Mr Andrew LEUNG called on the Administration to explore with the banking sector room for slashing interest rates in Hong Kong which would benefit business enterprises and mortgagees.

9. Mr James TO said that while he appreciated that the interest rates for lending would be determined by individual PLIs in accordance with commercial principles, the Administration should negotiate with the PLIs for applying a favourable interest rate to loans under the SpGS, given that the Government would provide 70% loan guarantee, thus reducing the credit risk on PLIs. In this connection, Mr Abraham SHEK opined that the interest rates for SpGS should be lower than that of the existing SGS under which the PLIs were shouldering 50% of the default risk. He urged the Administration to negotiate a preferential interest rates with the PLIs. The Chairman and Mr Tommy CHEUNG expressed similar view. Mr CHEUNG also requested the Administration to consider setting a ceiling for the interest rate applicable to SpGS loans and to pressurize PLIs to trim down SpGS interest rates as they would shoulder only 30% of the default risk while enjoying 100% share of the interest payment receivable from the loan.

10. While undertaking to relay members' concern to the Financial Secretary (FS) and the HKMA, SCED pointed out that PLIs were commercial entities independent of the Government and would operate in accordance with commercial principles when determining their own business strategies. Nevertheless, as the Administration was prepared to assume 70% of the default risk, generally speaking, the relatively smaller risk exposure of PLIs should be suitably reflected in the interest rates. She assured members that the Administration would follow up with the HKMA and the Hong Kong Association of Banks in this regard.

Government's guarantee commitment and default rate of SpGS

11. Mr Ronny TONG welcomed the proposed additional measures to help address SMEs' immediate cash flow problem. He enquired about the expected maximum Government expenditure, the ceiling of Government guarantee, and the assumed default rate for the SpGS compared to that of the SGS. He was concerned whether SMEs would still be able to obtain SpGS loans when the ceiling of the Government's guarantee commitment had been reached.

12. Ms Emily LAU sought explanation on the different default rates set for the existing SGS, the two previous special schemes, and the proposed SpGS. Noting that more than 20 000 applications had been approved under the existing SGS as at end October 2008, Ms LAU expressed concern whether the proposed SpGS that was estimated to benefit about 10 000 to 15 000 SMEs would be sufficient. She asked whether the Administration would consider increasing the maximum guarantee commitment beyond the cap of $7 billion.

13. Noting that the assumed default rate of 10% for the SpGS was higher than that of the existing SGS and the previous special loan schemes, Miss Tanya CHAN enquired about the basis for determining such rates. She was concerned that the assumed default rate would be even higher if a 100% guarantee similar to the SARS special loan scheme was provided in the future.

14. In reply, SCED advised that the Government's loan guarantee commitment would be capped at $7 billion throughout the SpGS operation period. The maximum loan amount that each SME might obtain under the SpGS was set at $1 million with a Government guarantee of 70%. The expected maximum expenditure on the part of the Government was estimated at $700 million assuming a default rate of 10%. Depending on the actual loan size, about 10 000 to 15 000 SMEs were expected to benefit from the SpGS. SCED further explained that as these schemes were implemented at different times with different government guarantee ratios, the default rates would be different. The actual default rates for the 1998 scheme during the Asian financial crisis and the special scheme during SARS in 2003 was 5.7% and 4.9% respectively, while the assumed and actual default rate for the existing SGS was 7.5% and 2.8% respectively. SCED said that given the higher Government guarantee ratio of 70%, and in view of the uncertainties over the economic outlook and SMEs' business performance, the Administration considered it prudent for planning purpose to assume a higher default rate of 10% for the SpGS, which was higher than the existing SGS that had a lower Government guarantee ratio of 50%. SCED said that application for the SpGS was open for six months starting from the date of implementation, which could be extended subject to review. The Administration would closely monitor the utilization of the SpGS. If necessary, consideration would be given to increasing the ceiling of the Government's guarantee commitment on the basis of merits and subject to funding availability.

15. Mr WONG Ting-kwong enquired whether the existing SGS and the proposed SpGS would be concurrently open for SMEs. He said that if concurrent application was allowed, the combined Government guarantee for each SME under the two schemes would be $6.7 million, i.e. $6 million for SGS and $700,000 for SpGS. In this connection, he asked whether the Administration had assessed the default risk and the Government's liabilities arising from the guarantee.

16. In reply, SCED affirmed that the proposed SpGS was a separate and time-limited scheme to supplement the existing SGS. With the implementation of the proposed SpGS, the aggregate maximum guarantee commitment on the Administration for both the SGS and the SpGS would amount to $19.6 billion, which the Government considered as within its financial capability.

Safeguards against abuse

17. Mr James TO referred to the proposed safeguards against abuse of the SpGS requiring personal guarantee of the SME owner or, in the case of a limited company, the shareholders holding more than 50% of the equity interest of the SME concerned. He was concerned that the requirement as it was currently phrased could be taken to mean that no shareholder would be required to give personal guarantee in the case of a limited company with two or more shareholders each holding no more than 50% of the equity interests. He sought clarification from the Administration in this regard. In response, SCED clarified that in the case of a limited company, shareholders together holding more than 50% of the equity interest of the company would be required to provide personal guarantee for the loan.

18. Mr Ronny TONG noted that another safeguard against abuse was that the SpGS loans should not be used for repaying, restructuring or repackaging other loans. He enquired how the Government could effectively enforce such requirement. The Director-General of the Trade and Industry Department explained that there was an express provision in the deed signed between the Government and the PLIs that the borrower could not use the loan for repaying, restructuring or repackaging other loans, credit facilities or payment obligations. When applying for an SpGS loan, the applicant was required to sign a legally binding undertaking to this effect and also submit documentary proof as required by the lending institution concerned. Moreover, the PLIs which also shared part of the default risk, would exercise financial prudence in assessing the borrower's credit worthiness and repayment ability, taking into account the borrower's track record and business prospect in accordance with prevailing good banking practices.

19. Mr James TO sought elaboration on the requirement that the SME must have no default in other banks. He remarked that during this difficult time of economic downturn and global credit crunch, only a small number of enterprises would be completely free of outstanding loans or delayed repayments. Sharing a similar view, Mr Tommy CHEUNG requested the Administration to clearly define the terms "no default" and "bad debt". He was concerned that the SGS and the SpGS might not be fully utilized due to the lending institutions' unwillingness to

relax credit facilities on the ground that the SME applicant had late repayment of outstanding loans.

20. In response, the Deputy-Director General of Trade and Industry explained that the term "default" was defined as failure to make repayment in accordance with the terms and conditions of the approved credit facilities with a lapse of more than 60 days after the due date. In vetting the loan application, the PLIs would make reference to the data maintained by the Commercial Credit Reference Agency to assess the borrower's credit worthiness. SCED reiterated that in the interest of financial prudence, risk management and public accountability, the PLIs and the Government would not provide loan/guarantee to SMEs with a less than satisfactory credit record.

21. Mr James TO expressed reservation over the personal guarantee requirement, which he considered would make the SME owner bankrupt in the event of a business failure. He pointed out that it was not uncommon for SME owners to take out loan from loan sharks to tide over the cash flow problem during this difficult time. He cautioned that disallowing the use of the loan for repaying, restructuring or repackaging other loans would put the SME owner to jail for breaching the undertaking should the latter use the loan to repay loan-sharks charging exorbitant interests. Mr Tommy CHEUNG shared the same concern. He said that the requirements were too stringent in the face of the current financial crisis. He urged the Administration to strike a proper balance between safeguarding against abuse and providing flexibility for loan applicants.

22. While appreciating that safeguards were necessary to prevent abuse of the schemes and misuse of public money, Dr LAM Tai-fai agreed with Mr James TO and Mr Tommy CHEUNG that the personal guarantee requirement and the prohibition of using the loan to repay, restructure or repackage other loans were too harsh. As assets such as property, machinery, and equipment were already used as loan security, it would be unfair to further require SME owners to personally guarantee the loan. Dr LAM considered it unreasonable to disallow the use of SpGS loans to repay other loans as it was only natural to first pay off high interest loans borrowed from loan sharks. He cautioned that the SpGS would not fully achieve its intended purpose as the risk of bankruptcy and imprisonment would scare off SME owners from using the scheme.

23. In response, SCED highlighted that with the Government taking on a higher guarantee ratio of 70%, it was considered necessary and reasonable to put in place adequate safeguards such as requiring SME owners to provide personal guarantee. To ensure that the loans were used to finance business operation such as salaries and rents instead of, for instance, subsidizing payment arising from investment losses, the requirement that the loans should not be used for repaying, restructuring or repackaging other loans was an important safeguard to forestall existing bad debts from being off-loaded onto the Government through the SpGS. Such requirement was already in place in the existing SGS pursuant to the Director of Audit's recommendation in respect of the special loan guarantee scheme launched in 1998. SCED highlighted that the aim of the schemes was to relieve

the financial burden of creditworthy SMEs with a genuine need, good track record, and reasonable business prospects. While the lending institutions were urged to adopt a more positive and accommodative attitude in lending to SMEs, the PLIs, on the other hand, had to exercise sound professional judgment taking into account financial prudence and risk management. SCED reiterated that for public accountability, a proper balance between flexibility and financial prudence had to be maintained.

24. Mr Paul TSE said that while he fully agreed that a proper balance should be maintained between flexibility and financial prudence in granting loans to SMEs, it was however important that the safeguards should not be too rigid or bureaucratic, scaring away SME owners in genuine need. He opined that the Administration should urge the PLIs to be flexible and accommodative in making loan assessment so that loan applicants would be encouraged to make truthful declaration on their financial position. In view of the higher Government guarantee ratio at 70%, Mr TSE urged the Administration to assume a more active role in setting the details and criteria for loan assessment, monitoring the processing of loan applications, and reviewing the applications turned down by PLIs. In this connection, Mr Tommy CHEUNG suggested setting up a team, preferably with personnel from the HKMA, to follow up cases rejected by PLIs to ascertain whether the PLIs had been too stringent in approving loan applications from SMEs. Mrs Sophie LEUNG also called on the Administration to monitor the implementation of the schemes and keep track of the credit extended and loans approved by PLIs.

25. In response, SCED assured that the Administration, in collaboration with the HKMA and the Hong Kong Association of Banks, would discuss and work out detailed loan application procedures. Lending institutions were expected to exercise discretion and examine each case on individual merits. The Administration would sign a deed with each PLI setting out the rights and obligations of each party. SCED advised that according to the banking sector, the lending institutions had not tightened credit to their customers. The net loans and advances extended to commercial banking customers had in fact increased in each of the past three months. She assured that the Administration and the HKMA would closely monitor PLIs' overall utilization of the Government guarantee under the SpGS.

26. Referring to the requirement that the SME must have been in operation for at least one year on the date of implementation of the SpGS, Mr Tommy CHEUNG enquired whether the one-year operation requirement had to be in the same business/industry. In response, SCED clarified that there was no restriction to any specific industry or type of business. All SMEs registered and with substantive business in Hong Kong, regardless of their industries or business types, were eligible to apply.

27. To facilitate better understanding of the loan schemes, the application procedures and assessment criteria, Mr Paul TSE suggested that large-scale open seminars/forums be held for interested SMEs to have direct communication with PLIs. In response, SCED said that channels were available for direct dialogues

between the lending institutions and the trade. SCED advised that as a result of a recent meeting arranged for about 10 banks with the tourism industry to discuss the deferred payment of credit card transaction proceeds to tour agencies, one bank had already shortened the payment period to 14 days. SCED further pointed out that individual banks had their own commercial considerations and they might not consider it prudent to discuss the interest rate and terms of loan at an open forum.

Functions and coverage of the Hong Kong Export Credit Insurance Corporation

28. Mr Andrew LEUNG welcomed the proposal to increase the statutory maximum liability (SML) from $15 billion to $30 billion. Referring to the industry's requests to further increase the SML to $50 billion and extending the remit and functions of the ECIC, he enquired about the Government's stance on such requests. Echoing the view, Mr Jeffrey LAM urged the Administration to actively consider the industry's call for expanding the scope of the export credit insurance scheme to cover local sales and domestic sales of local SMEs on the Mainland market.

29. In reply, SCED said that subject to FC approval of the present proposal, the SML would already be doubled from the current $15 billion to $30 billion. As the ECIC's capital was wholly owned by the Government and was therefore public money, due prudence had to be exercised when considering any further increase in the SML. As regards the suggestion for the ECIC to also provide guarantee for local sales and transactions in the Mainland domestic markets, SCED pointed out that the ECIC was set up with the policy objective of encouraging and supporting export trade by providing exporters with insurance protection against non-payment risks arising from commercial and political events. Given that credit insurance services for local sales were currently available on the market, whether there was a need to expand and change the remit, role and function of the ECIC should be considered with care as this also raised the issue of whether the Government should compete with the market in the provision of insurance for local sales. She suggested that effort should preferably be focused primarily on export trade at the present stage.

30. Mr Jeffrey LAM said that the export industry welcomed the series of measures announced on 23 October 2008 and the proposed new enhancement measures to provide higher insurance cover for exports generally and for emerging markets in particular. However, the industry considered the current application procedures cumbersome and inflexible, and hoped that the Administration could suitably streamline the process so as to expedite and facilitate processing of applications. SCED noted the suggestion for consideration.

31. In view of the increase of the SML to $30 billion, Dr LAM Tai-fai urged that consideration be given to increasing the cover and credit limits for exports to 50% - 70% and preferably 100%. He opined that a higher cover and credit limits would offer better protection for exporters and would in turn boost exporters' confidence in taking orders from overseas buyers, thus putting them in a better position in acquiring funding from the banks. Dr LAM further noted that the

ECIC had upgraded the insurance cover for exports to six markets (namely, the United Arab Emirates, Kuwait, Chile, Brazil, the Czech Republic and Malaysia), following a review of the country/market ratings of 15 emerging markets. While welcoming the enhanced services to provide higher credit limits and lower insurance premiums for exports to the upgraded markets, Dr LAM enquired about ECIC's position on the remaining nine markets. In reply, SCED said that ECIC would flexibly consider applications for export credit and increase the insurance cover and credit limits within bounds of prudent risks management. As regards emerging markets, the ECIC would regularly review the country/market ratings of emerging markets. The remaining nine markets would be reviewed in due course.

Further support and facilitating measures

32. While welcoming the additional measures proposed by the Administration, Ms Emily LAU opined that more support measures might be required in the face of the global financial crisis which was more ferocious than the Asian financial crisis and the SARS. She urged the Administration to keep in view developments and introduce timely measures to prevent spiraling unemployment. Concurring with Ms LAU, Mr Tommy CHEUNG opined that the relief packages introduced and proposed by the Administration, though helpful, were insufficient to help enterprises weather the present financial storm when confidence was put under severe test. He called on the Administration to promptly expedite the implementation of further support measures to prevent a mass closure of businesses.

33. Also calling for additional support measures, Mr Abraham SHEK urged the Administration to put in place measures to boost the economy. He suggested Government bureaux and departments to expedite payment to contractors/suppliers upon completion of contracts and delivery of services and to speed up the implementation of infrastructure projects to create more jobs. SCED took note of the suggestion. She said that where procedures permitted, payments to contractors/suppliers would be expedited. She highlighted that efforts had been made to accelerate the roll out of mega infrastructure as well as small-scale and minor works projects.

34. On tax relief measures, Miss Tanya CHAN said that consideration should be given to allowing all SMEs to defer the payment of provisional tax for one year, instead of requiring individual SME to apply to the Inland Revenue Department for a hold over under the present provision of the Inland Revenue Ordinance. In reply, SCED said that as every case was unique, individual applications for deferral had to be examined on its own merits.

35. Mr Jeffrey LAM noted that Mainland-based Hong Kong enterprises, particularly those in the Pearl River Delta Region, had encountered considerable financial and operational difficulties due to the economic downturn and policy adjustments in the Mainland. He urged the Administration to reflect the enterprises' difficulties and concerns to the Central People's Government (CPG), and to appeal to CPG to withhold the implementation of any new laws and policies

that might have adverse impact on Hong Kong-owned enterprises. He also called for further relief measures such as easing the requirements on export processing sector, providing export tax rebate, reducing administrative fees/levies, relaxing credits extended to Hong Kong enterprises, and facilitating mortgage arrangements for factories and manufacturing premises in the Mainland. To facilitate an early adjustment to new policies and regulations impacting Hong Kong enterprises in the Mainland, Mr LAM and Mrs Sophie LEUNG called on the Administration to make early announcement of new measures to be implemented so that SMEs would have more lead time to make corresponding adjustments. The Administration should organize seminars/forums to enhance SMEs' understanding of any new initiatives in the Mainland. Referring to the CPG's recent announcement of 4 trillion Yuan stimulus package to boost the economy and stimulate internal consumption, Mr Andrew LEUNG requested the Administration to keep Hong Kong enterprises posted of new business opportunities and to invite officials of the Mainland authorities to Hong Kong to provide update on implementation details.

36. In reply, SCED highlighted that the HKSAR Government had all along maintained close contact and would continue to strengthen communication with the Mainland authorities at various levels through different channels to provide appropriate assistance to Hong Kong enterprises in the Mainland. She pointed out that over the past two weeks, CPG, Guangdong Provincial Government, as well as the Dongguan and Shenzhen Municipal Governments had all announced plans to support Hong Kong enterprises in the Mainland. While some measures/policies were temporarily put on hold, other support measures were introduced to reduce the operating costs of enterprises and help them raise fund. These measures included increasing the export tax rebate for some 3 000 items, reduction or exemption of administrative levies, establishment of special funds, enhanced facilitation in customs clearance, and provision of one-stop service for industrial upgrading and restructuring. Hong Kong enterprises operating in the Mainland would also benefit from the recent 4 trillion Yuan package announced by Premier Wen Jiabao to boost economic development. SCED assured the meeting that the Administration, in collaboration with relevant support bodies, would make ongoing effort to enhance SMEs' knowledge of the latest developments and opportunities through various channels.

37. Mrs Sophie LEUNG thanked the Administration for having responded positively to her suggestion of raising the Government guarantee ratio to 70%. She remarked that Hong Kong enterprises had not made much advances in restructuring and transforming their mode of operation during the past 20 to 30 years. To provide an operating environment favourable to restructuring and transformation, Mrs LEUNG suggested the Administration to consider, in the longer run, setting up a credit rating mechanism for local sales and developing a factoring system, which was already in place in a number of advanced economies, to enable exporters and manufacturers to have direct access to information on overseas buyers, thereby enhancing their understanding on importers/buyers' needs and consumption demands.

Summing up

38. In concluding the discussion, the Chairman said that members welcomed the Administration's prompt action in providing greater support for SMEs, and supported in principle early introduction of the new measures proposed by the Administration. He urged the Administration to take note of the views and suggestions made by members, in particular the requests to shorten the processing time for loan approval and to liaise with the PLIs on applying favourable interest rates to the SpGS. At the Chairman's request, Ms Emily LAU, Chairman of the FC, agreed to arrange a special FC meeting on Friday 14 November 2008 to consider the Administration's proposal. The Administration undertook to reflect in the FC submission members' concerns and the Administration's response.

Admin

(*Post-meeting note:* The SpGS was approved by FC following consideration of the Administration's paper (FCR(2008-09)43) and deliberations at the FC meeting held on 14 November 2008.)

39. The Chairman suggested and members agreed to invite the Administration to attend the next regular meeting scheduled for 18 November 2008 to update the Panel on the progress made. The Chairman also requested the Administration to report any progress made to the Panel on a regular basis and if necessary, a special meeting would be convened to consider related issues.

II. Any other business

LC Paper No. CB(1)190/08-09(01) *(issued vide LC Paper No. CB(1)190/08-09 on 11 November 2008)*	-- Hon Tommy CHEUNG Yu-yan's letter on application for late membership dated 7 November 2008 (Chinese version only)

40. The Chairman sought members' views on Mr Tommy CHEUNG's application for late membership to join the Panel. Members raised no objection.

41. There being no other business, the meeting ended at 10:55 am.

Council Business Division 1
Legislative Council Secretariat
5 February 2009