

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1080/08-09  
(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, 1 December 2008, at 4:30 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 Fred LI Wah-ming, JP  
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Tommy CHEUNG Yu-yan, SBS, 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
- Member attending** : Hon Paul TSE Wai-chun
- Member absent** : Hon Timothy FOK Tsun-ting, GBS, JP
- Public officers attending** : Mrs Rita LAU NG Wai-lan, JP  
Secretary for Commerce and Economic Development  
  
Miss Yvonne CHOI, JP  
Permanent Secretary for Commerce and Economic  
Development (Commerce, Industry and Tourism)

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

Miss Vivian LAU Lee-kwan  
Deputy Director-General of Trade & Industry

Ms Karen KEMP  
Executive Director  
Hong Kong Monetary Authority

**Attendance by  
invitation**

: Hong Kong Foundry Association

Mr Vincent KONG Hon-po  
Vice Chairman

The Cosmetic & Perfumery Association of Hong Kong  
Ltd

Mr William TSUI  
President

Hong Kong Metal Merchants Association

Mr TING Siu-kwan  
Chairman

Hong Kong Foodstuffs Association

Mr Gerald YANG  
Personal Assistant to Chairman

The Federation of Hong Kong Footwear Ltd

Mr TAM Shing  
Vice President

Hong Kong and Kowloon Electrical Appliances  
Merchants Association Ltd

Mr Peter CHU Ka-lok  
Chairman

Hong Kong Electro-plating Merchants Association

Mr Dennis NG  
Chairman

Hong Kong SME Economic and Trade Promotional Association

Mr LI Yuet-leong  
President

Hong Kong Diecasting and Foundry Association

Mr LEE Yuen-fat  
Chairman

The Association for Hong Kong Catering Services Management Ltd

Mr POON Kuen-fai  
President

Hong Kong Plastic Bags Manufacturers' Association

Mr Ricky WONG  
Executive Vice-President

Hong Kong Small and Medium Enterprises Association

Mr Danny LAU  
Chairman

Hong Kong Suppliers Association Ltd

Mr Albert TANG  
Chairman – Government Policy Committee

The Hong Kong Metals Manufacturers Association

Mr Michael YU  
Chairman

Association of Auto Batteries and Tyres Industry

Mr Eric WONG Ho-chuen  
Chairman

Federation of Hong Kong Industries

Mr Cliff SUN  
Deputy Chairman

Hong Kong General Chamber of Commerce

Mr Gerry MA  
Chairman, SME Committee

The Hong Kong Chamber of Small and Medium  
Business Limited

Mr Dennis NG Wang-pun, MH  
President

Hong Kong Association for Promotion & Development  
of SMEs

Mr Peter KAM  
Chairman

Chinese Cuisine Management Association

Mr NGAN Hing-chun  
Chairman

Hong Kong Federation of Restaurants and Related  
Trades

Mr Simon WONG  
President

Federation of Beauty Industry (HK)

Mr Nelson IP  
Chairman

Hong Kong and Kowloon Vermicelli and Noodle  
Manufacturing Industry Merchants' General  
Association

Mr FUNG Bing-hau  
Life President

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

Mr Felix SO Yu-lup  
Vice Chairman

Hong Kong Footwear Association

Mr Kellogg NGAI  
Vice-President

The Hong Kong and Kowloon Electric Trade Association

Mr Emil YU Chen-on  
President

Hong Kong Furniture & Decoration Trade Association Ltd

Mr TANG Wah  
Vice Chairman

Hong Kong Jewelry Manufacturers' Association

Mr Kerl SHIN  
Associate Chairman & Consultant

Federation of Hong Kong Machinery and Metal Industries

Dr TSUI Ping-kwong  
Chairman

Bank of China (Hong Kong) Ltd

Mr Marco WONG Wai-cheong  
Head of Corporate Relationship Management (Deputy General Manager), Corporate Banking and Financial Institutions

Bank of Communications Co Ltd

Mr Terence PANG Ho-cheung  
Head of Credit Management Department

The Bank of East Asia, Limited

Ms Mimi KAM  
Head of Business Development Department

Chiyu Banking Corporation Ltd

Mr CHAN Kin-hing  
Deputy Head of Corporate Banking Department

CITIC Ka Wah Bank Ltd

Mrs Dora TSE  
Senior Vice President & Head of Commercial Banking

Mr Thomas LAU  
Senior Vice President & Head of Business Banking  
Retail Banking Group

Citibank, N.A. / Citibank (Hong Kong) Ltd

Mr Anson KWOK  
Managing Director  
Head of Commercial Bank, Hong Kong

Dah Sing Bank Ltd

Mr Thomas KWONG  
Executive Director & Head of Commercial Banking  
Division

DBS Bank (HK) Limited

Mr David LI  
Managing Director  
Head of Enterprise Banking  
Corporate and Investment Banking

Fubon Bank (Hong Kong) Ltd

Mr Lawrence CHAN  
SVP & Deputy Head of SME Division

Miss Heidi TAM  
AVP – Credit Administration

Hang Seng Bank Ltd.

Mr Thomas TSUI  
Assistant General Manager  
Head of Business Banking

The Hongkong and Shanghai Banking Corporation Limited

Mr Nixon CHAN  
Senior Executive, Commercial Banking (SME)

Industrial and Commercial Bank of China (Asia) Ltd

Mr Kenny TAM  
Deputy General Manager of Commercial Banking

INTESA SANPAOLO SPA

Mr David WANG  
Head of Compliance

Nanyang Commercial Bank, Ltd

Mr Ronick C Y CHAN  
Deputy General Manager

Public Bank (Hong Kong) Ltd

Mr Andrew SIU  
Senior Deputy General Manager

Mr Nelson LIU  
Head of Commercial Banking

Shanghai Commercial Bank Ltd

Mr Henry LAU  
Senior Manager

Standard Chartered Bank (Hong Kong) Limited

Ms Betty KU  
Regional Head of SME, Greater China

United Commercial Bank

Mr David NG  
Vice President, Head of Asset Based Finance

Wing Hang Bank Ltd

Mr David FUNG  
General Manager

Mr Lawrence LEE  
Senior Manager

Wing Lung Bank Ltd

Mr Raymond CHEUNG  
Head of Corporate Banking Department

**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

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Action

- I. Progress update on the support measures for small and medium enterprises arising from the global financial turmoil**  
(LC Paper No. CB(1)288/08-09(01) -- Administration's paper on progress update on the support measures for small and medium enterprises arising from the global financial turmoil
- LC Paper No. CB(1)288/08-09(02) -- Hon David LI's question on SME Loan Guarantee Scheme at the Council meeting on 19 November 2008 and the Administration's reply
- LC Paper No. CB(1)288/08-09(03) -- Hon Vincent FANG's question on hawker licence fee and market stall rental concession at the Council meeting on 26 November 2008 and the Administration's reply
- LC Paper No. CB(1)288/08-09(04) -- Letter from the Hong Kong Association of Banks dated 27 November 2008 (English version only)
- LC Paper No. CB(1)288/08-09(05) -- List of follow-up actions arising from the meeting held on 18 November 2008 prepared by the Legislative Council Secretariat



- LC Paper No. CB(1)201/08-09(03) -- Administration's letter dated 17 November 2008
- 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(05) -- Paper on summary of deputations' views received at the special meeting on 27 October 2008 prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)267/08-09(01) -- Hon Emily LAU's letter dated 20 November 2008 (Chinese version only)
- LC Paper No. CB(1)267/08-09(02) -- Hon Tommy CHEUNG's letter dated 20 November 2008 (Chinese version only))

### Introduction

The Chairman welcomed representatives of the Administration and deputations to the meeting. He said that in view of the industry's concern about the difficulties in obtaining loans from financial institutions and at the request of Ms Emily LAU and Mr Tommy CHEUNG, this meeting was arranged for representatives of the trade, the Hong Kong Association of Banks (HKAB), the Administration and members to discuss how best to effectively assist small and medium enterprises (SMEs) in getting through the global financial turmoil and economic downturn.

### Briefing by the Administration

2. The Secretary for Commerce and Economic Development (SCED) referred to the Administration's paper (LC Paper No. CB(1)288/08-09(01)) and updated members on the implementation of the enhanced SME Loan Guarantee Scheme (SGS) rolled out on 6 November 2008 and the Special SME Loan Guarantee Scheme (SpGS) approved by the Finance Committee on 14 November 2008.

### Presentation by deputations

3. The Chairman reminded representatives of deputations that their written submissions and oral presentations made at the meeting would not be covered by the protection and immunity provided under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382).

4. Members noted that a total of 49 deputations had attended the meeting of which two, namely, the Hong Kong Metal Merchants Association and the Hong Kong Metals Manufacturers Association had provided a written submission issued under LC Paper Nos. CB(1)327/08-09(01) and CB(1)327/08-09(02). Views and comments made by the deputations broadly covered the following areas:

- (a) Bank credit facilities;
- (b) Further enhancement to the Small and Medium Enterprise Funding Schemes;
- (c) Function of the Hong Kong Export Credit Insurance Corporation;
- (d) Business operating environment;
- (e) Business operating costs;
- (f) Mainland Laws and Regulations; and
- (g) Other support measures.

*Hong Kong Foundry Association*

5. Mr Vincent KONG, Vice-Chairman, said that banks remained reluctant to grant loans to SMEs despite increase in Government guarantee ratio for SpGS. He opined that banks should discharge its lending function and fulfil its social responsibility of providing loans to SMEs. He called on the Administration to consider extending the export credit insurance scheme to cover local sales and allowing businesses to hold over the payment of provisional profit tax and to pay profit tax for 2007-2008 by phases.

*Federation of Hong Kong Industries (FHKI)*

6. Referring to a recent survey conducted by FHKI, Mr Cliff SUN, Deputy Chairman, said that financial institutions had not relaxed the credit grips on SMEs. He urged financial institutions to be more flexible in providing robust credit facilities to ease SMEs' hardship during the difficult time of global financial turmoil and called on the Government to roll out the SpGS expeditiously.

*The Cosmetic & Perfumery Association of Hong Kong Ltd*

7. Mr William TSUI, President, was dissatisfied that lending institutions had increased the lending interest rate and cut credit lines to the cosmetic and perfumery industry. As the industry was a labour intensive service industry with low loan default rate, lending institutions should relax the principle of requiring property/asset as loan security and extend credit facilities to the industry having

regard to its unique nature.

*Hong Kong Metal Merchants Association*  
(LC Paper No. CB(1)327/08-09(01) -- Submission (Chinese version only))  
(subsequently issued via email on  
2 December 2008)

8. Mr TING Siu-kwan, Chairman, said that feedback from its member organizations showed that financial institutions remained passive and reluctant to grant loans. Given the unique nature of the metal industry, he suggested that financial institutions should consider approving loans on basis of taxable income/profits of enterprises in the past few years, instead of relying solely on orders received or account receivable by enterprises. Referring to the stimulus package announced by the Central People's Government (CPG) to ease the hardship of enterprises, he called on the HKSAR Government to take similar positive initiatives to provide greater support to SMEs.

*The Federation of Hong Kong Footwear Ltd*

9. Mr TAM Shing, Vice-President, opined that the indiscriminate tightening of credit by banks would adversely affect otherwise healthy enterprises. He said that despite HKSAR Government injection of capital into the banking system, SMEs' access to credit would not be improved unless banks were willing to fulfil their social responsibility and perform their essential financial intermediation role which included the provision of credit to SMEs.

*Hong Kong and Kowloon Electrical Appliances Merchants Association Ltd*

10. Mr Peter CHU Ka-lok, Chairman, urged the banking sector to resume normal credit facilities to existing SME customers and stop cutting loans, withdrawing standby credit facilities and calling for immediate repayment of existing loans.

*Hong Kong Electro-plating Merchants Association*

11. Mr Dennis NG, Chairman, said that banks' credit squeeze had further aggravated the burden of SMEs and would adversely affect the overall economy. He shared some deputations' view that enterprises should be allowed to hold over the payment of provisional profit tax and pay profit tax for 2007-08 by phases.

*Hong Kong SME Economic and Trade Promotional Association*

12. Mr LI Yuet-leong, President, was concerned that despite measures implemented by the CPG and the HKSAR Government to assist SMEs amidst the financial crisis, the banking sector remained passive in extending loans to SMEs. He said that the HKSAR Government should provide direct assistance to SMEs by holding over the payment of profit tax and provisional tax.

*Hong Kong Diecasting and Foundry Association*

13. Mr LEE Yuen-fat, Chairman, called for the holding over of the payment of provisional profit tax and the payment of profit tax for 2007-2008 by phases. In view of the difficulty in obtaining certification of ownership for properties on the Mainland, he urged financial institutions to review its lending policy of relying solely on property/assets/orders received as loan security.

*The Association for Hong Kong Catering Services Management Ltd*

14. Mr POON Kuen-fai, President, was concerned that rising unemployment would dampen consumers' spending sentiment. Pledges made by financial institutions and big corporations not to lay-off staff would help sustain spending and boost the economy.

*Hong Kong Plastic Bags Manufacturers' Association*

15. Mr Ricky WONG, Executive Vice-Chairman, criticized lending institutions for charging their existing SME customers a high administrative/application fee and a high interest rate (5% plus the prevailing commercial lending rate) for loans under the SGS.

*Hong Kong Small and Medium Enterprises Association*

16. Mr Danny LAU, Chairman, said that banks were reluctant to extend loans to SMEs. None of the loan applications submitted by its 45 members was approved by banks. The Administration should consider increasing the loan guarantee ratio of the SGS from the current 50% to 80% to replace the SpGS under which the Government would provide up to 70% loan guarantee. The Administration should also assume a leading role in vetting and approving loan applications for SGS and SpGS, instead of relying on lending institutions to approve loan applications.

*Hong Kong Suppliers Association Ltd*

17. Mr Albert TANG, Chairman of Government Policy Committee, expressed disappointment that the wholesale and retail industries that provided goods and services for local consumption could hardly benefit from the enhancement measures. As an alternative to increasing the Government guarantee ratio which gave lending institutions extra safety margin in lending money, Mr TANG said that the Administration should consider providing loans and credit facilities direct to SMEs instead of acting merely as a guarantor if the banking sector remained reluctant to provide financial support to SMEs. Consideration should also be given to extending the export credit insurance scheme to cover local sales.

*The Hong Kong Metals Manufacturers Association*  
(LC Paper No. CB(1)327/08-09(02) -- Submission (Chinese version only))  
(subsequently issued via email on  
2 December 2008)

18. Sharing the deputations' view, Mr Michael YU, Chairman, urged the Administration to provide loans direct to SMEs and to increase the loan guarantee ratio of the SpGS from the current 70% to 100%. He also urged lending institutions to consider approving loans on basis of taxable income/profit of enterprises in the past three years, taking into account the unique nature and needs of individual industries/trades. Mr YU hoped that that the Administration would request the Mainland authorities to increase the export tax rebate for metals manufacturing industry.

*Association of Auto Batteries and Tyres Industry*

19. Mr Eric WONG Ho-chuen, Chairman, shared the view that the Administration should consider increasing Government guarantee ratio for SpGS from current 70% to 90% or 100% to boost banks' confidence in lending to SMEs, and providing loans and credit facilities direct to SMEs. He suggested that the Administration should consider issuing cash voucher of \$3,000 to help stimulate spending and local consumption. Financial institutions were also urged to suspend the arrangement of postponing reimbursement of payment in respect of credit card transactions.

*Hong Kong General Chamber of Commerce*

20. Mr Gerry MA, Chairman of SME Committee, highlighted the urgency of addressing SMEs' immediate liquidity problem, restoring consumer confidence and stimulating economy to prevent further business closures and massive lay-offs. He said that the Chamber had sent a letter to the Chief Executive requesting the introduction of direct concrete relief measures including holding over the payment of provisional profit tax for 2008-2009, extending the deadline for tax payment, waiving surcharge for overdue tax payment and waiving/freezing Government fees of public services relating to business operation.

*The Hong Kong Chamber of Small and Medium Business Limited*

21. Mr Dennis NG Wang-pun, President, urged financial institutions to review its lending policy of relying on orders received, and be more flexible in approving loans to help improve liquidity of enterprises by making reference to account receivable provided by the enterprises concerned.

*Chinese Cuisine Management Association*

22. Mr NGAI Hing-chun, Chairman, said that many restaurants had closed down due to insufficient cash flow to operate their business. The Administration

should discuss with financial institutions ways to improve the liquidity of enterprises, impress upon the banking sector the urgency of providing financial support to SMEs during this difficult time and setting a lower interest rate for SpGS, say at 2% or lower. He agreed that the Administration should help enterprises by suspending or holding over the payment of profit tax, waiving Government rates and rents, lowering/freezing fees of public services relating to business operation such as charges for water, electricity, gas, sewage disposal and reducing transport costs.

*Hong Kong Federation of Restaurants and Related Trades*

23. Mr Simon WONG, President, expressed disappointment that banks were unwilling to grant loan to the catering sector which was regarded as high risk industry during the time of economic downturn. He called on the Administration to take concrete measures to encourage spending and ease the hardship of the catering industry to prevent massive closure of restaurants.

*Federation of Beauty Industry (HK)*

24. Mr Nelson IP, Chairman, questioned financial institutions' right to unilaterally defer reimbursement of payment to transaction in respect of credit card transactions. He cautioned that the collapse of the beauty industry, which was labour intensive, would aggravate the escalating unemployment rate.

*Hong Kong and Kowloon Vermicelli and Noodle Manufacturing Industry Merchants' General Association*

25. Mr FUNG Bing-hau, Life President, called for Government direct assistance to help SMEs weather the current financial turmoil, which was considered as more ferocious than SARS, to forestall massive closures of enterprises. He requested the Administration to consider setting up an insurance scheme and a protection fund for the industry.

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

26. Mr Felix SO Yu-lup, Vice Chairman, called on the Government to create employment opportunities through developing a green community, expanding elderly services, providing school-based child care service and counselling on school-work, improving community facilities and expediting small scale and minor works projects. He suggested that consideration be given to relaxing enforcement of illegal hawking, issuing temporary hawker licences, setting up designated area for holders of temporary hawker licences, and waiving sewage charge and water charges.

*Hong Kong Footwear Association*

27. Mr Kellogg NGAI, Vice-President, expressed concern about the long processing time required by banks in vetting loan applications of SME applicants who were already their long-time customers. The Administration should impress upon the lending institutions to expedite the approval of loans.

*The Hong Kong and Kowloon Electric Trade Association*

28. Mr Emil YU Chen-on, President, called on the Government to launch more mechanical engineering work projects and to consider relaxing requirements on bid bond, retention bond and performance bond in respect of Government projects. Consideration should also be given to expand the remit of ECIC to cover local sales and provide services to Hong Kong-owned enterprises operating in the Mainland for transactions relating to the Mainland domestic market. He suggested that the Commercial Credit Reference Agency should allow a longer grace period and be more flexible over the definition of "default" (failure to make payment in accordance with the terms and conditions of the approved credit facilities with a lapse of more than 60 days after the due date), instead of blacklisting those enterprises which failed to make payment within the time limit.

*Hong Kong Furniture & Decoration Trade Association Ltd*

29. Mr TANG Wah, Vice Chairman, suggested that the Inland Revenue Department be responsible for vetting and approving loan applications on the basis of tax returns on income/profit submitted by enterprises for the past three years.

*Hong Kong Jewelry Manufacturers' Association*

30. Mr Kerl SHIN, Associate Chairman & Consultant, cautioned that the indiscriminate tightening of credit by banks would adversely affect otherwise financially viable enterprises, leading to massive business closures, hence aggravating unemployment and undermining social stability. The banking sector should provide more assistance to SMEs to alleviate their hardship and be more accommodative and flexible in meeting their funding needs.

*Federation of Hong Kong Machinery and Metal Industries*

31. Dr TSUI Ping-kwong, Chairman, said that financial institutions should fulfil their social responsibility and perform their essential financial intermediation role to provide robust credit facilities to financially healthy enterprises. He reiterated the requests made by other deputations relating to public fees/charges concessions, tax relief arrangements for the payment of provisional tax. He also requested the Administration to increase the Government guarantee ratio for SGS and SpGS to 70%-80%, and waive the personal guarantee requirement for SpGS.

Presentation by representatives of the Hong Kong Association of Banks

32. Members noted that representatives of 20 banks had attended the meeting. Most of them expressed support for SGS and the proposed SpGS and said that their banks had all along actively supported the funding schemes in providing loans to SMEs which was the backbone of Hong Kong economy. Some representatives said that their banks had not tightened credit to SMEs and had maintained steady year-on-year growth in commercial lending. In general, banks welcomed the business opportunities of granting loans to financially healthy enterprises with short term liquidity problems and credit worthy enterprises with good repayment record. Some representatives however pointed out that while they were supportive of the schemes and fulfilling their social responsibility, banks had to be responsible to their shareholders and make prudent risk assessment in the face of the century-rare financial turmoil. Suggestions on improving the operation and flexibility of the loan schemes had been made to the Administration through the HKAB. Views expressed at the meeting were summarized below:

- (a) the Administration should consider increasing the Government guarantee ratio to boost banks' confidence in lending;
- (b) supported SMEs' suggestion to expand the remit of the ECIC to cover local sales and transactions relating to the Mainland market;
- (c) urged the Trade and Industry Department (TID) to consider simplifying the procedures to expedite processing of claims for default payment from participating lending institutions (PLIs);
- (d) suggested the Administration to consider setting different document requirements for different loan amounts so as to facilitate and expedite loan approval by banks;
- (e) supported some SMEs deputations' suggestion of using objective standard criteria such as income/profit tax of enterprises as basis for vetting and approving loan application;
- (f) suggested the Administration to consider relaxing the requirements for the schemes and providing PLIs with more flexibility in granting loans to meet different needs of different industries;
- (g) consideration should be given to increasing flexibility of the SpGS by allowing part of the loan to be used for a revolving credit line and allowing PLIs more flexibility in providing credit facilities to existing customers whose original unused credit line outside the scheme had been cut; and
- (h) suggested the Administration to consider setting up an SME bank to specifically cater for the need of SMEs.



*CITIC Ka Wah Bank Ltd*

33. Mrs Dora TSE, Senior Vice President & Head of Commercial Banking, said that CITIC Ka Wah had participated in the SGS and would actively support the SpGS. The bank had, through HKAB, channelled their views on improving the operation of the schemes to the Administration.

*Citibank, N.A./Citibank (Hong Kong) Ltd*

34. Mr Anson KWOK, Managing Director, Head of Commercial Bank, HK, indicated the bank's support of the funding schemes. He said that Citibank had not tightened credit to SMEs and would continue to grant loans to financially viable enterprises. He shared the export industry's concern about overseas buyers' credit worthiness and supported industry's suggestion to expand the remit of ECIC to cover local sales and transactions relating to the mainland market.

*Dah Sing Bank Ltd*

35. Mr Thomas KWONG, Executive Director & Head of Commercial Banking Division, pledged the bank's support for the SpGS. He said that Dah Sing Bank had extended new loans to SME customers under the Government SGS during this difficult time of global financial crisis and would continue to provide funding support to financially viable enterprises in accordance with the requirements of the schemes.

*DBS Bank (HK) Limited*

36. Mr David LI, Manager Director, Head of Enterprise Banking, Corporate and Investment Banking, said that DBS welcomed the business opportunities of granting loan and credit lines to financially healthy enterprises with reasonable prospects. He said that statistics on the overall amount of loan granted by the banking sector could reflect the position of market liquidity.

*Fubon Bank (Hong Kong) Ltd*

37. Mr Lawrence CHAN, SVP & Deputy Head of SME Division, said that loans granted by Fubon Bank under SGS had increased by 30% in the past few years and Fubon aimed to achieve a double digit increase in 2009. He suggested the Government to consider further increasing the Government guarantee ratio to boost banks' confidence in lending amidst the global credit crunch. TID was also requested to consider simplifying the procedures and shortening processing time for effecting claims for default payment.

*Hang Seng Bank Ltd*

38. Mr Thomas TSUI, Assistant General Manager, Head of Business Banking, shared Mr Lawrence CHAN's concern about difficulties in claiming loan default payment from TID and called on TID to specify the procedures and documentation requirement. He said that Hang Seng Bank had maintained steady year-on-year growth in commercial lending and had recently issued letters of pre-approved credit to about 20 000 existing customers. On the industry's concern about the long processing time for loan approval, he said that more detailed information and time would be required to assess the credit risk of new SME customers. Regarding deferred payment to retail merchants in respect of credit card transactions, Mr TSUI explained that reimbursement to retail merchants in respect of credit card transactions for clothing and catering industries would normally be made one or two days after the date of transaction. However, for tourism, beauty and physical fitness industries which involved pre-payment for contractual services, credit card issuing banks would have to compensate credit card holders in the event of the closure of the companies concerned.

*The Hongkong and Shanghai Banking Corporation Limited*

39. Mr Nixon CHAN, Senior Executive, Commercial Banking (SME), said that while they were supportive of the loan schemes to assist SMEs in getting through the financial crisis, banks had to make prudent credit risk assessment in the face of the century-rare financial turmoil. He said that suggestions were made to the Administration for consideration on ways to improve the flexibility of the loan schemes to better meet the working capital and trade financing needs of SMEs and to enhance banks' confidence in granting loans.

*Industrial and Commercial Bank of China (Asia) Ltd*

40. Mr Kenny TAM, Deputy General Manager of Commercial Bank, said that the Administration should consider increasing the Government loan guarantee ratio and expanding the remit of ECIC to cover local sales.

*INTESA SANPAOLO SPA*

41. Mr David WANG, Head of Compliance, said that their organization had participated in the SGS and would also actively support the SpGS.

*Nanyang Commercial Bank, Ltd*

42. Mr Ronick CHAN, Deputy General Manager, supported the deputations' suggestion of using standard objective criteria such as income/profit tax of enterprises as basis for vetting and approving loan applications. He suggested that different documentation requirements should be set for different loan amounts so as to facilitate and expedite loan approval.

*Public Bank (Hong Kong) Ltd*

43. Mr Andrew SIU, Senior Deputy General Manager, said that Public Bank was most willing to grant loan to financially healthy enterprises and those with short term liquidity problem. He called on the Administration to relax the requirements for the schemes and allow PLIs more flexibility in granting loans to meet varying needs of different industries. Besides providing cover for payment risks arising from overseas buyers' failure to take delivery of goods, expanding the remit of ECIC to also cover local sales would help enhance banks' confidence in lending.

*Shanghai Commercial Bank Ltd*

44. Mr Henry LAU, Senior Manager, said that Shanghai Commercial Bank welcomed opportunities of granting loan to credit worthy enterprises with good repayment record and repayment capacity. He highlighted that the bank had always been flexible in approving loans to SMEs and would not hold up the processing of loan applications unnecessarily.

*Standard Chartered Bank (Hong Kong) Limited*

45. Ms Betty KU, Regional Head of SME, Greater China, said that there was a substantial growth in the bank's commercial lending during the first nine months of 2008 and the amount of non-secured loan for October and November 2008 had also increased. She suggested the Administration to consider increasing the flexibility of the SpGS by allowing part of the loan to be used for a revolving credit line and allowing PLIs more flexibility in providing credit facilities to existing customers whose original unused credit line outside the scheme had been cut.

*United Commercial Bank*

46. Mr David NG, Vice President, Head of Asset Based Finance, pledged continued support to the Government SME funding schemes.

*Wing Hang Bank Ltd*

47. Mr David FUNG, General Manager, pledged the bank's continuous support of the Government SME funding schemes. He highlighted that while fulfilling their social responsibility, banks had to make prudent credit risk assessment and be accountable to their shareholders. He suggested the Administration to consider setting up an SME bank to specifically cater for the need of SMEs.

*Wing Lung Bank Ltd*

48. Mr Raymond CHEUNG, Head of Corporate Banking Department, said that Wing Lung Bank would support the SME funding schemes. He suggested that consideration be given to increasing the revolving credit line under the SpGS which

would be helpful in improving liquidity.

*Bank of China (Hong Kong) Ltd*

49. Mr Marco WONG Wai-cheong, Head of Corporate Relationship Management (Deputy Manager), Corporate Banking and Financial Institutions, appreciated that the indiscriminate tightening of credit across the board leading to the massive closure of SMEs would not be in the interests of banks. He highlighted that the Bank of China had all along actively supported the loan schemes in providing loans to SMEs which was the backbone of Hong Kong economy. He said that timely provision of the requisite documents/information and a truthful disclosure of the financial position by SME borrowers to their partner banks would help shorten the processing time.

*Bank of Communications Co Ltd*

50. Mr Terence PANG Ho-cheung, Head of Credit Management Department, indicated support for the scheme and said that the Bank of Communications Co Ltd. would promote SpGS to their customers once details of the scheme were finalized by the Administration.

*The Bank of East Asia, Limited*

51. Ms Mimi KAM, Head of Business Development Department, said that the Bank of East Asia, Limited would start processing loan applications received as soon as the deed for the SpGS was finalized and signed for the scheme to commence. She said that the Bank of East Asia had submitted recommendations on improving the operation and flexibility of the schemes to TID for consideration.

*Chiyu Banking Corporation Ltd*

52. Mr CHAN Kin-hing, Deputy Head of Corporate Banking Department, said that Chiyu Banking Corporation Ltd had assisted its SME customers in facing short-term liquidity problem to restructure their loan. Their frontline staff had started promoting the SpGS to customers while awaiting finalization of the details of the scheme.

Discussion

*Implementation of the enhancement measures for the SME Loan Guarantee Schemes and banks' readiness to grant loans*

53. Mr Tommy CHEUNG expressed grave concern about banks' reluctance to grant loans to SMEs despite various measures taken by the Administration and the Hong Kong Monetary Authority (HKMA) to ease the interbank rates and inject money into the Hong Kong banking system. Noting that only a few applications for the enhanced SGS had been approved so far and that the SpGS approved by the

FC on 14 November 2008 had yet to come into operation, Mr CHEUNG opined that such a slow progress in implementing the enhanced SGS and SpGS was most disappointing. He urged the Administration and the banking sector to expedite the vetting of loan applications to provide timely assistance to SMEs. He also called on PLIs to make a performance pledge for processing loan applications.

54. Ms Emily LAU and Miss Tanya CHAN noted that the banking sector and SME deputations had presented conflicting versions of banks' readiness to lend money to SMEs. These members were concerned that while lending institutions generally indicated support for the enhanced SGS and SpGS, trade associations and chambers of commerce claimed that the banking sector had in fact tightened up credit facilities to their SME member organizations. Ms LAU and Miss CHAN had doubts about lending institutions' readiness to relax credit to SMEs amidst global credit crunch, and they were concerned that massive business closures would further aggravate the unemployment situation. Ms Emily LAU expressed regret that the Administration had not provided statistics on the number of SMEs/companies that had winded up their business. She called on PLIs to provide statistics and relevant information on the number of SME loan applications rejected and the reasons for rejections. Mr Paul TSE and Mr WONG Ting-kiwong opined that the banks seemed to be paying lip service in helping SMEs but were actually reluctant to relax credit grip on SMEs.

55. Dr LAM Tai-fai expressed grave concern over banks' reluctance to help SMEs and dissatisfaction with the slow progress in the implementation of the loan schemes. He stressed that there was pressing need for immediate cash flow relief to SMEs, and that massive staff lay-offs would undermine social stability and create a knock-on effect on the overall economy. Dr LAM urged the Administration to take bold and decisive steps during this critical time of global financial crisis to promptly implement effective measures that would boost banks' confidence in granting loans to SMEs. Sharing a similar concern about SMEs' difficulties in obtaining loans from local banks, Mr Jeffrey LAM called on the Administration to devise concrete measures to effectively address the confidence problem in granting loans to SMEs.

56. In response, SCED advised that more than 30 lending institutions had expressed interest in joining the SpGS. A working group had been set up with representatives from TID and PLIs to discuss ways to improve the operation of the Government loan guarantee schemes and to streamline the loan application procedures with a view to expediting the processing of loan applications. To facilitate SMEs in making loan applications, work was also underway to draw up a standard guideline for SMEs' reference, setting out loan application procedures, vetting criteria, and the financial information and documentation that the banks would require. SCED further said that the legal document for SpGS was being revised to provide greater flexibility in response to the industry's call to relax the requirements. To launch the scheme as early as possible, the Administration would roll out the SpGS as soon as only one or two PLIs had signed the legal document and ready to take on applications. The Director-General of Trade and

Industry (DG/TID) supplemented that the draft legal document had been issued to all interested PLIs. The SpGS was expected to come into operation in the following week, subject to finalization of the legal document and completion of necessary procedures. Public announcement would be made and details of the schemes, including a list of PLIs, would be published on TID's website for general information. Publicity programmes would be launched through various channels to enhance SMEs' understanding of the schemes, the application procedures, documentation requirements, and assessment criteria.

57. Mr Andrew LEUNG expressed concern that of the 86 applications received for the enhanced SGS, only 35 applications had been approved so far. He sought details on information and documentation required by financial institutions to help speed up the processing of loan applications. In response, Mr Nixon CHAN of HKBC said that while different information and documentation would be required for different trade sectors, general information such as the borrower's business nature, background and history of operation, audited accounts, cash flow position, type and nature of credit facility, loan amount and orders on hand, would be required for credit risk assessment. DG/TID supplemented that TID was discussing with PLIs to explore ways to speed up the loan application process and to promote SMEs' understanding of the importance of providing sufficient financial information in support of loan applications. He reiterated that guideline for reference was being developed in collaboration with the HKAB and the Deposit-Taking Companies Association. While individual banks' requirements might vary, the guideline under preparation would provide SMEs with general reference on application for loans under the schemes. Seminars and forums would be held on a regular basis to help SMEs better understand the schemes and bank requirements.

58. Mr Paul TSE was concerned that across-the-board tightening of credit by banks would adversely affect otherwise financially viable enterprises, leading to massive business closures, aggravating unemployment, and undermining social stability. He remarked that financial institutions should fulfill their social responsibility and perform their essential financial intermediation role, which included the provision of credit to SME, thus enabling financially viable SMEs to maintain their normal operations during financial crisis. He enquired whether HKMA had put in place a code of practice and guidelines governing banks' conduct on lending.

59. In reply, ED/HKMA said that banks should be allowed to conduct their own prudent credit assessments. The HKMA had no powers to force banks to extend loans to any customer on any specified terms, and HKMA could only impress upon banks that tightening credit indiscriminately would have an adverse impact on the overall economy. To this end, the HKMA had issued a circular to banks urging them to be flexible and accommodative to the liquidity needs of their customers, including SMEs, within the bounds of prudent credit assessment during this difficult time. Banks were also reminded 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 all SMEs in a particular industry sector.

60. Mrs Sophie LEUNG said that it had been brought to her attention that many lending institutions had tightened their credits to SMEs across the board. She requested the Administration and the HKMA to ascertain whether banks had done so and the extent of reduction of credit to SMEs. She also called on the Administration to analyze the commercial lending position of local banks, and to examine the utilization of deposited money/funds by local banks, such as the total loans granted to SMEs and its respective percentage of all loans granted by banks. SCED noted the suggestion.

*Proposed enhancement to the SpGS*

61. Dr LAM Tai-fai called on the Administration to relax the requirements, such as the personal guarantee requirement, and put in place a mechanism to safeguard against mis-use of the SpGS. In response, SCED said that in view of the concern about possible abuse of the schemes as expressed by some members at previous meetings, and having regard to the Audit Commission's recommendation in respect of the special loan guarantee scheme launched in 1998, administrative measures and conditions attached to the schemes were considered a necessary safeguard to ensure proper use of public money. As regards some deputations' request for increasing the Government loan guarantee ratio for SpGS to 100%, SCED cautioned that such a move would increase the risk of moral hazards.

62. DG/TID referred to the call made by representatives of some lending institutions to simplify the procedures and speed up the processing of PLIs' claims for default payment. He said that claims would normally be effected within one month after receipt of all necessary information from the PLI concerned. To expedite the process, TID and the HKAB would jointly draw up a guideline on procedures and required documents for PLIs' reference.

*Interest rates for SpGS*

63. Mr Tommy CHEUNG enquired whether the Government would seek agreement with PLIs to set a ceiling on the interest rates for SpGS loan, given that the Government would provide 70% loan guarantee. In response, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) and ED/HKMA said that the HKAB had advised that interests rates would be determined by individual PLIs in accordance with commercial principles, and that any lowering of credit risk as a result of the guarantee provided by the Government would be suitably reflected in the interest rates. In determining the interest levels, each borrower would be assessed individually against a host of relevant factors, including the borrower's business, operational and financial strength, type and nature of credit facility, the loan amount and repayment tenure, the type, quality and marketability of any security pledged, availability of personal guarantees and customers' relationship with the bank, etc.

*Appeal/arbitration mechanism for SGS and SpGS applicants*

64. Mr WONG Ting-kwong reiterated his concern expressed at previous meetings over the absence of a mechanism for SMEs to appeal against the rejection of their loan applications. He requested the Administration to consider putting in place an appeal/arbitration mechanism to review and follow up on loan applications rejected by PLIs. In response, SCED said that the Administration did not have the resources and the requisite professional expertise to vet the loan applications and would rely on PLIs to exercise their prudential professional judgment in assessing SMEs' loan applications. She also pointed out that it was very difficult, if not impossible, to set any objective basis for reviewing or querying the credit risk assessment made by PLIs.

*Business operating costs*

Admin

65. Ms Emily LAU and Dr LAM Tai-fai called on SCED to relay to the Chief Executive and the Financial Secretary (FS) deputations' requests for tax/fees relief measures to reduce business operating costs such as holding over payment of provisional tax, lowering shop rentals, freezing/waiving/lowering fees and charges for public services relating to business operation, etc. SCED undertook to convey deputations' and members' views to the inter-departmental meeting chaired by the FS.

*Function and coverage of Hong Kong Export Credit Insurance Corporation (ECIC)*

66. Ms Tanya CHAN noted the Administration's proposal to increase the statutory maximum liability (SML) of the Government's maximum guarantee for ECIC's contingent liabilities arising from its insurance business, from \$15 billion to \$30 billion. She enquired about the remaining underwriting capacity of the ECIC pending the increase of the SML targeted at early 2009. In reply, SCED said that the Government would introduce a motion into the Legislative Council (LegCo) in early 2009 for passing a resolution to increase the SML of ECIC to enhance its underwriting capacity.

67. On deputations' suggestion for ECIC to also provide cover for local sales and transactions in the Mainland domestic markets, SCED said that ECIC was set up with the policy objective of providing insurance protection for export trade, and its operation was governed by legislation. Moreover, credit insurance services for local sales were currently available in the market. Referring to the series of enhancement measures recently introduced to enhance ECIC's services, SCED highlighted that, where existing legislation permitted, the Administration would seek to further strengthen insurance protection for the industry, which included looking into the operation mechanism of insurance services for local sales currently available in the market and exploring how best the insurance industry could adjust their services to meet the needs of SMEs. The Office of the Commissioner of



Insurance and ECIC had made regular contacts with their Mainland counterparts to explore how best to assist Hong Kong-owned enterprises in the Mainland and exchange views on the latest development of the respective insurance markets.

Admin

68. Mrs Sophie LEUNG requested the Administration to examine the feasibility of local banks providing insurance cover services to exporters in line with the practice in overseas advanced economies. SCED noted the suggestion.

Summing up

69. The Chairman concluded that the measures introduced by the Administration were insufficient to fully address SMEs' liquidity problem. He called on the Administration to implement expeditiously concrete measures to effectively help SMEs weather the financial storm. He also appealed to banks to resume normal credit lines to financially healthy SMEs, in particular their existing SME customers.

Clerk

70. Mr Tommy CHEUNG proposed that Members should also be allowed to express their views on the subject and the Administration should provide response to Members' concern at a Council meeting to be held in December 2008. As Mr CHEUNG's proposal was made after the end of the extension of the meeting time, the Chairman requested the Clerk to explore the arrangement to take forward the matter.

*(Post-meeting note: At the instruction of the Panel Chairman, a special meeting was held on 5 December 2008 to discuss Mr CHEUNG's proposal. The Panel agreed that the Chairman should move a motion for adjournment on "Predicament faced by the small and medium enterprises due to tightened credit facility from banks" at the Council meeting on 17 December 2008.)*

**II. Any other business**

71. There being no other business, the meeting ended at 7:12 pm.