

立法會
Legislative Council

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Panel on Commerce and Industry

**Minutes of special meeting
held on Wednesday, 10 December 2008, at 8:00 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 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 Ronny TONG Ka-wah, SC
Hon Starry LEE Wai-king
Hon Tanya CHAN
Dr Hon Samson TAM Wai-ho, JP
- Member attending** : Hon Paul TSE Wai-chun
- Members absent** : Hon Fred LI Wah-ming, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon CHIM Pui-chung
Dr Hon LAM Tai-fai, BBS, 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

Ms Annie CHOI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)

Miss Belinda KWAN
Assistant Director-General (Industries Support)
Trade and Industry 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

Action

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

(LC Paper No. CB(1)379/08-09(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)379/08-09(02) -- Press release on economic stimulus package announced by the Chief Executive on 8 December 2008)

Presentation by the Administration

The Secretary for Commerce and Economic Development (SCED) briefed members on the proposed enhancement to the Special Loan Guarantee Scheme for Small and Medium Enterprises, which would be renamed as Special Loan Guarantee Scheme (SpGS), with a view to further strengthening support for business establishments in Hong Kong in obtaining immediate cashflow relief from the commercial lending market. Subject to the Panel's support, and the Finance Committee (FC)'s approval, the SpGS was expected to come into operation before Christmas upon the completion of the necessary procedures and legal documentation with the participation lending institutions (PLIs).

Discussion

Loan interest rates

2. Panel members expressed concern about the high interest rates charged by PLIs under the SpGS. Mr Jeffrey LAM and Mr WONG Ting-kwong said that according to some SME borrowers, some PLIs charged exorbitant interests as high as Prime+4% and imposed harsh conditions on prospective borrowers despite the 70% Government loan guarantee. Given the higher Government guarantee ratio which gave the lending institutions extra safety margin in lending, Mrs Sophie LEUNG was of the view that the Government should share the interests charged by PLIs. Mr Tommy CHEUNG said that interest rates for the SpGS loans should not be higher than that of the existing loan. He urged the Administration to discuss with PLIs the feasibility of setting a ceiling for the interest rates to be applied to the SpGS. The Chairman opined that interests charged for SpGS should be reduced by half.

3. In response, SCED said that the Administration had reflected the industries' and members' concern about high interest rates to the Hong Kong Monetary Authority (HKMA) and the Hong Kong Association of Banks. She highlighted that the interest rates were determined by individual PLIs in accordance with commercial principles. In setting the interest levels, each borrower would be assessed individually against various relevant factors, including the borrower's business, its operational and financial strength, the type and nature of credit facility, the loan amount, availability of personal guarantee, and the borrower's relationship with the banks. Generally speaking, the reduced credit risk as a result of the higher Government guarantee ratio would be suitably reflected in the interest rates. She said that while the Administration and the HKMA had urged the PLIs to be flexible and accommodative to the liquidity needs of their customers, it was equally important for banks to maintain a proper balance between exercising flexibility and ensuring prudent credit risk assessment. The Administration was not in a position nor would it be appropriate to prescribe a specific interest rate for the PLIs. Enterprise borrowers could consider approaching different PLIs for the best lending rate to suit their needs.

Effectiveness of the SpGS

4. While he supported the SpGS, Mr Ronny TONG doubted whether increasing the loan ceiling from \$1 million to \$6 million would make PLIs more willing to provide loans to their SME customers as the level of the Government loan guarantee ratio was still at 70%. In this connection, the Chairman noted that while the total Government loan guarantee commitment was increased from \$7 billion to \$100 billion, the Government did not actually inject any money into the lending market. He expressed concern that in view of the global credit crunch, the PLIs might not have sufficient liquidity in providing credit to SMEs.

5. SCED replied that the increase in Government's total loan guarantee commitment for the SpGS from \$7 billion to \$100 billion together with the provision of 70% Government guarantee would help make available loans of up to about \$142 billion in the commercial lending market. The response from the banking sector had been positive so far. The HKMA had taken a series of measures to maintain depositors' confidence and had injected a substantial amount of liquidity into the banking system, with a view to assisting banks in performing their essential financial intermediation role, which included the provision of credit to SMEs. The HKMA had discussions with banks active in SME lending. They generally indicated that liquidity was not a major issue in their provision of credit. Moreover, a number of measures would be introduced to provide greater flexibility to PLIs and enterprises wishing to make use of the SpGS. For instance, PLIs would not have to stop further lending to delinquent borrowers under the revolving credit line within a grace period of 30 days after the due date for debt repayment. PLIs were allowed to provide credit facilities to existing customers whose original unused credit line outside the scheme had been cut for one reason or another. Loans were allowed to be used not only as operating funds but also for other purposes such as commercial overdraft and letters of credit. The Administration would continue to work closely with PLIs and urge them to be more forthcoming and supportive in approving loans under the SpGS.

6. Mr Tommy CHEUNG urged the Administration to consider further increasing the Government guarantee ratio to 100%. The Chairman called on the Government to consider injecting money directly into the lending market or providing loans and credit facilities direct to SMEs if the banking sector remained reluctant and over-cautious in granting loans to SMEs.

7. SCED and the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) replied that similar to existing and previous Government loan guarantee schemes, the operation of the SpGS ought to be market driven. The intention was to help enterprises that were creditworthy, had a good track record and could demonstrate reasonable business prospects but were unable to obtain adequate financing from lending institutions due to the credit crunch. The Administration would rely on the PLIs to exercise their usual professional prudence in assessing the loan applications. The Government would not consider increasing the Government loan guarantee ratio to 100% for the SpGS in view of the moral hazards involved.

8. Mrs Sophie LEUNG called on the Administration to urge financial institutions to review its lending policy of relying solely on personal guarantee and assets/property as loan security, and be more flexible in making credit assessment. In reply, SCED said that the HKMA had issued a circular to lending institutions urging them to be flexible and accommodative, within bounds of prudent credit assessment, to the liquidity needs of their SME customers during this difficult time. PLIs had been provided with more flexibility in the loan assessment process. In making credit assessment, PLIs could make reference to financial information other than audited financial statements of the latest financial year, and take into consideration other relevant factors such as orders received, accounts receivable

and business turnover.

Manpower requirements and implementation of the SpGS

9. Miss Tanya CHAN was worried whether there would be sufficient manpower to ensure that loan applications would be processed expeditiously without delay. SCED advised that apart from redeploying existing manpower resources within the Trade and Industry Department (TID), about 20 additional staff at non-directorate ranks or non-civil service contract staff of comparable ranks would be required to implement the SpGS during the application period. Thereafter, some of the staff would continue to be required to service the scheme. The additional expenditure would be met from internal resources.

10. The Chairman, Mr WONG Ting-kwong and Miss Tanya CHAN expressed concern whether the SpGS would be implemented before Christmas, in time to help SMEs to tide over the immediate cashflow problem during the most difficult period in the coming few months. They called on the Administration to urge PLIs to expedite the vetting and processing of loan applications and to be accommodative and flexible, within bounds of prudent risk assessment.

11. In response, SCED and Director-General of Trade and Industry (DGTI) said that, subject to FC's approval on 12 December 2008, the scheme would commence operation before Christmas or earlier. The concerned legal document had been finalized. The scheme would be rolled out as soon as a few PLIs had completed the necessary legal procedures and were ready to accept applications. They said that the PLIs were well aware of SMEs' need for urgent liquidity relief and would make their best effort to speed up loan processing. The Administration would continue to liaise with PLIs on ways to streamline the loan application procedures to expedite the vetting and processing of loan applications with a view to shortening the processing time. A set of standard guidelines on application procedures and documentation requirements was being drawn up to help SMEs, especially first-time applicants, get a better understanding of the application procedures and documentation requirements for obtaining loans from the PLIs.

Support for the tourism industry

12. Mr Paul TSE said that the tourism industry had not been able to benefit from the SpGS as lending institutions remained reluctant to grant loans to local travel agencies as most agents were not able to provide assets as loan security. He opined that the Government should take a more active role instead of adopting a market driven approach, relying solely on the banking sector to provide loans. He urged the Government to set aside a fixed proportion of the loans under the SpGS to support the travel industry, or re-instate an industry-specific 100% guarantee scheme similar to the "Loan Guarantee Scheme for SARS Impacted Industries" introduced in 2003.

13. SCED responded that, to address the concerns of the trade and some LegCo Members, a number of enhancement measures were proposed to facilitate

applications from enterprises in different sectors. These included raising the loan ceiling for each company from \$ 1 million to \$6 million, with \$3 million (50%) being revolving credit; allowing the loan to be used not only as operating funds but also for other purposes such as commercial overdraft and letter of credit; allowing all firms, irrespective of the number of employees (except listed-companies) to apply for the scheme; and extending the maximum guarantee period for each loan from 30 months to 36 months, or up to 30 June 2012, whichever the earlier. She believed that the enhancement measures should be able to address the liquidity needs of companies including the travel industry. Separately, the Hong Kong Tourism Board would step up promotion to attract visitors to Hong Kong, and the Government would continue to liaise closely with the Central Government in further facilitating Mainland residents to visit Hong Kong. She said that the Administration would meet with the travel industry to promote the SpGS, and continue to work closely with the travel industry in monitoring the effectiveness of the scheme. PSCIT supplemented that the loans granted during the SARS period, under the industry-specific and time-limited "Loan Guarantee Scheme for SARS Impacted Industries" for four targeted industries including the travel industry, could only be used to finance staff salaries and business operation cost.

14. While welcoming the SpGS, Ms Starry LEE called on the Administration to urge the financial institutions to suspend deferring payment to retail merchants in respect of credit card transactions, and to put in place measures to address the specific needs of individual industries/trades such as the travel, beauty and retail industries. SCED noted the suggestion.

Measures to stimulate the economy

15. In addition to implementing large-scale infrastructure projects to sustain growth and development in the long-term, Mr Ronny TONG opined that measures should be implemented as soon as practicable before Christmas and Chinese New Year to encourage spending and stimulate domestic consumption to boost the local economy.

16. In response, SCED highlighted that the Government's priority was to preserve employment and support enterprises so as to reduce lay-offs and prevent business closures. As announced by the Chief Executive after the second meeting of the Task Force on Economic Challenges, resources would be used to stimulate the economy and create employment to ease the impact of the recession. The Financial Secretary (FS) had convened an inter-departmental meeting to study various options to help SMEs and the Government would implement all feasible measures without delay.

Further support measures for SMEs

17. Mr Jeffrey LAM supported the SpGS and commended the Administration for the prompt action taken in response to the industry's call for greater support. He believed that raising the loan ceiling for each company from \$1 million to \$6 million with the provision of a revolving credit line of up to 50% would help

ease SMEs' liquidity problem. He requested the Government to continue relaying to the Central Government the concerns and difficulties of Hong Kong enterprises operating in the Mainland, and to urge for the reduction or exemption of administrative levies/fees to help reduce operating costs. He also called on the Government to consider providing tax concessions to SMEs such as holding over the payment of profits tax for the 2009-2010 tax year so that business enterprises could have more operating capital. Miss Tanya CHAN shared a similar view and urged the Government to allow more flexibility for SMEs to defer the payment of profits tax.

18. In response, SCED said that the Government had been liaising closely with the Mainland authorities to reflect the concerns of Hong Kong enterprises. Meetings would be arranged for Hong Kong business leaders to reflect directly to Mainland officials their difficulties and concerns encountered in developing the Mainland market. She assured members that the Government would actively follow up with the relevant Mainland authorities to urge for early implementation of various support and facilitation measures. She understood that banks in the Mainland had responded positively to the Central Government's call to relax credits to Mainland-based Hong Kong enterprises. On tax concession, she advised that existing measures were in place to cater for reduction in taxpayers' income/profits under the Inland Revenue Ordinance. Eligible taxpayers could apply for holding over under the existing provisional tax system. Nonetheless, FS had noted and would take into consideration the industries' request to suspend the collection of provisional tax.

Other concerns

19. Noting that as at 7 December 2008, 83 applications had been rejected by PLIs, Ms Starry LEE enquired about the reasons for rejection. PSCIT replied that some applications were rejected as the applicants were unable to provide sufficient documents to facilitate assessment. In this respect, she said that the guidelines on application procedures and documentation requirements would serve as a useful reference for SME applicants. Seminars and forums would be held on a regular basis to enhance SMEs' understanding of the bank requirements and the importance of providing sufficient and accurate financial information in support of loan applications.

20. In this connection, Mr Tommy CHEUNG urged TID to review and follow up on loan applications rejected by PLIs to ascertain whether the PLIs had been too stringent in loan assessment, and refer the rejected cases to other PLIs. In response, DGTI said that the Administration did not have the resources and the requisite professional expertise to vet or review the loan applications and would rely on the PLIs to exercise their prudent professional judgment in assessing SMEs' loan applications.

21. In response to Ms Starry LEE's enquiry about the personal guarantee requirement under the SpGS, DGTI advised that to prevent abuse, personal guarantee was required from the business owner, or in the case of a limited

company, from shareholders together holding more than 50% of the equity interest of the company. PSCIT said that it was considered reasonable to require business owners to pledge confidence in their business with a personal guarantee, and such requirement was not uncommon in commercial lending.

22. Responding to Mr WONG Ting-kwong, DGTI clarified that eligible company could borrow from different PLIs subject to the loan ceiling of \$6 million for each company. Enterprise borrowers were encouraged to approach a number of PLIs to find the one(s) that best suited their needs. A list of PLIs would be made available on the TID website and the information would be updated from time to time when more PLIs signed up to join the scheme.

Summing up

23. Summing up the discussion, the Chairman concluded that the Panel in principle supported the SpGS. He asked the Administration to follow up on members' concern, in particular the interest rate for the SpGS. He urged the Administration to roll out the scheme as soon as practicable, subject to FC's approval, and to encourage PLIs to be more forthcoming and positive in granting loans to their SME customers. Members agreed that the Administration should update members on the implementation progress of the scheme at the next regular meeting scheduled for 16 December 2009. At Panel members' request, the Administration undertook to provide the following information when submitting the proposal to FC for consideration:

- (a) detailed breakdown on the number of applications received, approved and being processed, as well as the total loan amount approved under the SME Loan Guarantee Scheme; and
- (b) detailed breakdown on the number of applications received, applications approved and total loan amount approved under the Special Finance Scheme for SMEs and the Loan Guarantee Scheme for SARS Impacted Industries introduced in 1998 and 2003 respectively.

(Post-meeting note: The Administration had provided the information vide LC Paper No. FCR(2008-09)52 issued on 12 December 2008.)

II. Any other business

24. There being no other business, the meeting ended at 9:33 am.