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21 October 2008

By fax no: 2185 7845

Ms Yue Tin-po
Clerk to Panel on Commerce and Industry
Legislative Council
Legislative Council Building
Hong Kong

Dear Ms Yu

Panel on Commerce and Industry - Special Meeting on 27 October 2008

Thank you for your letter to our Chairman dated 27 October 2008.

In response to the invitation of the Panel, we wish to advise that the Hong Kong Association of Banks (HKAB) does not propose to send representatives to attend the meeting on 27 October but would like to share what we consider to be important considerations for the discussion of the Panel.

SMEs are a growing important economic sector for Hong Kong. In supporting this sector, banks have been offering a wide range of services to their SME customers. Over recent years, some of the banks have also set up specialized lending units to cater to the needs of SMEs. Access to credit by SMEs is further enhanced through the commercial credit data sharing arrangement participated by members of HKAB and the DTC Association (DTCA) which are active in SME lending. This industry-wide initiative was launched in November 2004 and has expanded its coverage since March 2008 to promote a healthy, sustainable growth of short- to long-term SME financing. As of to date, the Commercial Credit Reference Agency has 126 participating financial institutions and captures the credit records of more than 90,000 qualifying SMEs (i.e. limited companies which have an annual group business turnover of not more than HKD50 million, and all the sole proprietorships and partnerships which have a borrowing relationship with members of HKAB and DTCA).

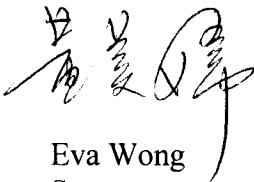
In supporting the Government's policy, a number of HKAB members have been participating in the SME Loan Guarantee Scheme set up by the Government to provide to the SMEs business installations and equipment loans as well as working capital loans (sub-schemes). With the maximum amount of the Government guarantee being the lower of HKD5 million for business installations and equipment loans and HKD1 million for working capital loans and 50% of the facility, banks have



a significant portion of clean exposure. As responsible lenders, banks need to conduct a full credit analysis to establish the borrower's credit worthiness in accordance with their own credit policy and business strategies. Having said that, we note the high utilization of the Scheme (81.8% or HKD10.3 billion), in reflection of the support of HKAB members to the SMEs. The funding changes to the two sub-schemes as announced by the Secretary for Commerce & Economic Development on 18 October, subject to approval of the Legislative Council, should provide greater flexibility to SMEs in managing their financing requirements.

Finally, we also consider continuing education to the SMEs to promote the importance of providing quality and transparency of financial data when applying for loans to be an important part of addressing the issue over the longer term. We welcome support from the stakeholder groups including the Government to help promote such education to the SMEs.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Eva Wong', is written over the typed name and title.

Eva Wong
Secretary

c.c. Hon Vincent FANG Kang, JP (Panel Chairman)