

香港特別行政區政府
工商及科技局
工商科

香港金鐘道八十八號
太古廣場第一期二十九樓

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COMMERCE AND INDUSTRY BRANCH
COMMERCE, INDUSTRY AND
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SPECIAL ADMINISTRATIVE REGION

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30 December 2002

Clerk to Public Accounts Committee
(Attn : Miss Sandy CHU)
Legislative Council Building
8 Jackson Road,
Central, Hong Kong
(Fax : 2537 1204)

Dear Ms CHU,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 5 : Special Finance Scheme for
small and medium enterprises**

Thank you for your letter dated 8 December 2002. Please find
attached our reply to item (c) for the Committee's perusal please.

Yours sincerely,


(Anita Chan)

for Secretary for Commerce, Industry and Technology

c.c.

Secretary for Financial Services and the Treasury	(Fax no. 2537 1736)
Director-General of Trade and Industry	(Fax no. 2789 2491)
Director of Accounting Services	(Fax no. 2598 9273)
Director of Audit	(Fax no. 2583 9063)

**The Director of Audit's Report on the
Results of the Value for Money Audits (Report No. 39) -
Additional Information to the Public Accounts Committee regarding the
Special Finance Scheme for Small and Medium Enterprises
(Hearing on 4 December 2002)**

(c) regarding the six guarantee cases selected by Audit for study (paragraph 2.32 of the Audit Report refers), Audit considers that at the time of the borrowers' applications for the guaranteed loans, the PLIs did not have strong justifications for supporting their assessments that the borrowers were creditworthy; as the objective of the Special Finance Scheme for Small and Medium Enterprises (the Scheme) was to help creditworthy SMEs, whether there was a departure from the objective in the six cases; if so, the follow-up actions in this regard.

The fundamental objective of the Scheme is to provide relief to SMEs in the face of the unprecedented liquidity crunch in 1998. It was commonly acknowledged that many SMEs were facing severe cashflow problems at the time when the Scheme was launched. Indeed, a lot of them were no longer able to make repayments to existing loans as scheduled. Under the circumstances, we consider that allowing SMEs to restructure their loans was in line with the objective of the Scheme.

In addition, we wish to point out that SMEs with overdue repayments were not necessarily unworthy of credit. For the six cases in question, we noted that the PLIs concerned decided to lend to the SMEs because their assessment was that the difficulties of these enterprises were only temporary in nature and could be relieved through loan restructuring. Indeed a few of these SMEs had managed to repay part of the loan before they subsequently failed to continue doing so.

We have made clear from the start that the Government would rely on the PLI to exercise their usual prudent professional judgement in assessing whether an individual SME was credit-worthy. But PLIs are bound by the provisions of the Deed signed with the Government that sets out the rights and obligations of each party. For the six cases in question, Members may wish to note that the Director of Accounting Services, in consultation with the Department of Justice, is reviewing them to ascertain whether the PLIs concerned have breached any requirements stipulated in the Deed. The same will also be done on all other claims for

compensation under the Scheme. If a PLI was found to have breached the requirements of the Deed, the Government may seek to recover the amount from the PLI for a claim already paid and refuse to make payments for a claim being processed.