

## LCQ15: Assistance to SMEs

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Following is a written reply by the Secretary for Commerce and Economic Development, Mrs Rita Lau, to a question by the Hon Lam Tai-fai in the Legislative Council today (November 5):

Question:

Owing to the global economic downturn triggered off by the recent financial crisis of the United States and with the tightened credit facilities by banks, small and medium enterprises (SMEs) in Hong Kong find their businesses increasingly difficult to operate. In order to assist SMEs in tiding over the difficulties and preventing the unemployment problem from worsening as a result of the collapse of SMEs, will the Government inform this Council whether:

- (a) it will consider allowing SMEs to defer the payment of provisional tax for one year and making arrangements for them to pay profits tax by installments;
- (b) it will consider exempting SMEs from payment, for one year, of the rates charged on their owner-occupied premises; and
- (c) it will request the Hong Kong Export Credit Insurance Corporation to raise the maximum limit of credit insurance for SMEs and relax the requirements for applying for credit insurance in relation to goods to be exported to emerging markets such as Russia, the Middle East and Africa;
- (d) it will consider halving all government fees and charges in relation to SMEs' businesses for one year;
- (e) it will consider relaxing the restrictions on the use of factory buildings to allow SMEs to use premises in such buildings for exhibition, distribution and wholesale purposes;
- (f) specific measures have been put in place to urge banks to stop tightening the credit facilities for SMEs and remove the measure of deferring payment of credit card transaction proceeds to businesses; if they have, of the details of such measures; if not, the reasons for that;
- (g) it will, with reference to the Special Finance Scheme for SMEs in 1998 and the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries in 2003, consider raising the Government's risk-sharing factor to at least 70% under the current SME Loan Guarantee Scheme; if it will not, of the reasons for that; and

(h) it will discuss with the mainland authorities concerned and urge them to effect relief measures in respect of the fees, charges, subsidies and tax rebates etc. on businesses operated by Hong Kong businessmen?

Reply:

President,

Small and medium enterprises (SMEs) are the backbone of Hong Kong's economy. We understand the considerable difficulties faced by SMEs in the financial crisis, and their hope that the Government would help them tide over the difficulties. I have earlier announced a package of support measures, including allowing greater flexibility in the loan amount under the SME Loan Guarantee Scheme, and extending the guarantee period for the Working Capital Loan. We have also raised the grant ceiling of the Export Marketing Fund and extended the scope of reimbursable items, with a view to enabling SMEs to develop more new markets and engage in more promotion activities. In addition, the Hong Kong Export Credit Insurance Corporation will enhance the support for exporters, such as freezing premiums for its insurance facilities, continuing to provide cover for the payment risks arising from the buyers' failure to take delivery of goods which are usually not covered by other insurance companies in the market, and providing a certain number of free buyer credit assessment service for exporters.

Apart from the above measures that have been announced, we are now working with bureaux, departments and relevant organisations to actively examine the feasibility of introducing more support measures for SMEs. The Financial Secretary has convened an inter-departmental meeting to study various options, including those mentioned in this question. We shall make public announcements as soon as the decisions are available.

Regarding parts (a), (f) and (h) of the question, the information below will be relevant:

(a) Currently, the Inland Revenue Ordinance has provisions that allow flexible arrangement to cater for changes in taxpayers' income. If a taxpayer estimates that his/her income or profits for the current year would be less than 90% of that of the previous year, he/she may, within 28 days before the due date for tax payment, apply to the Inland Revenue Department to hold over all or part of the provisional tax. If an individual taxpayer is unable to pay tax on time due to financial difficulties, he/she may also apply to the Department for paying tax by installment.

(f) In view of recent concerns about banks' tightening of credit to SMEs, the Hong Kong Monetary Authority (HKMA) issued a circular on October 29, 2008 urging banks to be accommodative in lending to SMEs within the bounds of prudent risk management. In particular, banks are encouraged to adopt a supportive attitude towards their SME customers in these difficult times, and to refrain from any hasty, material and indiscriminate tightening of credit which could have a significant adverse impact on the business and economic prospects of otherwise healthy SMEs. HKMA also draws banks' special attention to credit tightening involving withdrawal or reduction of credit lines, shortening of trust receipt periods or extension of the prevailing period for making payments to retail merchants in respect of credit card transactions. It also emphasises that any tightening of credit to an SME customer should, as far as practicable, be considered on a selective basis in the light of the customer's credit position rather than applied across the board to SMEs within the same industry or sector.

Regarding the deferral of payment to retail merchants for credit card transactions, HKMA understands that not every bank has adopted this practice. Some banks have made this arrangement with individual merchants engaged in specific industries, as part of the banks' risk management process. HKMA is now discussing the issue with the banks concerned, and will urge banks not to be indiscriminate in deferring payment, thereby tightening credit indirectly, but to consider the merits of each case, wherever such is practicable. HKMA will also follow up with banks to see if there are other ways in which the latter's concerns may be addressed.

(h) The SAR Government has all along maintained close contact with the relevant Central authorities and various provincial and municipal governments to reflect the difficulties and concerns of Hong Kong businessmen operating in the Mainland, and examine measures to assist them. For example, after considering our recommendations, the Mainland has temporarily put on hold individual measures, and has increased the export tax rebate rates for some 3,000 commodities. In addition, individual provinces and municipalities (e.g. Guangdong and Dongguan) have also introduced support measures, including 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, with a view to reducing the operating costs of enterprises and helping them raise fund. The SAR Government will continue to strengthen communication with the Mainland authorities at various levels through different channels to provide appropriate assistance to the Hong Kong businessmen (SMEs in

particular) in face of the prevailing economic environment.

Ends/Wednesday, November 5, 2008