

ITEM FOR FINANCE COMMITTEE

**HEAD 157 – GOVERNMENT SECRETARIAT :
ECONOMIC DEVELOPMENT AND LABOUR BUREAU
(LABOUR BRANCH)**

Subhead 700 – General other non-recurrent

**Item 050 Loan Guarantee Scheme for Severe Acute Respiratory Syndrome
Impacted Industries**

Members are invited to approve the modification of two features of the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries.

PROBLEM

We have reviewed the operation of the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome (SARS) Impacted Industries (“the Scheme”), since its inception on 5 May 2003. Having considered the views of the industries, the present market situation and the operation of the Scheme so far, we propose to suitably relax the requirements on the use of the loans and guarantee from shareholders.

PROPOSAL

2. We propose that -

- (a) the present requirement of joint and several guarantee for the loan from shareholders holding 90% or more of the equity interest in the establishment should be reduced to 70%; and

/(b)

- (b) after paying staff salaries direct to the employees' individual accounts, the remainder of the loan, if any, can be used to meet other operating expenses. The size of the loan would be capped according to a formula (see paragraph 6 below) which we have agreed with the participating banks or the specified guarantee ceiling, whichever is the lower; and
- (c) the above relaxations should apply to all the four sectors under the Scheme.

JUSTIFICATION

3. Restaurants, hotels, retail businesses, travel agents, tourist coach operators, cinemas and karaoke establishments are experiencing serious cash-flow problems as a result of the significant business downturn due to the outbreak of SARS. The Scheme has been launched to provide immediate cash-flow relief to these sectors to help them tide over this difficult period and preserve employment. As at 28 May 2003, a total of 466 loans have been approved by the 26 lending institutions taking part in the Scheme and the total amount of loans approved stands at some \$132 million.

4. Since the commencement of the Scheme, we have received feedback that some establishments in these sectors, especially restaurants with a large number of shareholders, have been unable to apply for loans under the Scheme because they have difficulties in securing personal guarantee of their shareholders up to 90% of the equity interest of the business as required. Some shareholders may be residing out of Hong Kong; others may simply be reluctant to go for a personal guarantee. We consider these concerns justified. To overcome this hurdle but without compromising the overriding principle that personal guarantee should be obtained from a majority of shareholders, we propose to reduce the requirement for personal guarantee of shareholders from 90% of the equity interest to 70%.

5. In addition, many small and medium sized companies in these sectors rely heavily on business turnover for their working capital. The sudden drop in business has put great pressure on them in meeting their daily operating expenses. Even if they can pay staff salaries, they still find it difficult to meet rental payments and other operating costs. Many proprietors have suggested that there should be greater flexibility with the use of the loan. At present, loans taken out under the Scheme can only be used for payment of salaries, and the loan size is capped at three months of an applicant's salary payment or the specified guarantee ceilings (see paragraph 11 below), whichever is the lower.

6. We propose that an eligible establishment should be allowed to use the loan, after payment of salaries, for covering other operating costs such as rental. The size of the loan would be capped according to a formula, which we have agreed with the participating banks as follows -

$$(3 \text{ months' salaries} + 3 \text{ months' rents}^*) \times 2$$

(Note* - In the case of self-owned business premises, rents will be taken as rateable value per month.)

or the specified guarantee ceiling, whichever is the lower.

FINANCIAL IMPLICATIONS

7. The proposed modifications will not affect the Government's total commitment of \$3.5 billion under the Scheme.

IMPLEMENTATION TIMETABLE

8. Subject to Members' approval, the proposals will be brought into effect, once administrative arrangements have been made by the participating banks to accommodate the modifications.

9. For applications that have already been approved, the arrangements proposed in paragraph 6 above will also apply, if the loans already approved have not yet reached the ceiling.

BACKGROUND INFORMATION

10. On 25 April 2003, Finance Committee approved a commitment of \$3.5 billion for the Government to provide guarantee for loans extended by authorized institutions to certain sectors which are experiencing serious cash-flow problems as a result of the significant business downturn since the outbreak of SARS.

11. The sectors/industries eligible for applying for the loans and the guarantee ceiling for each application are as follows -

- \$1 million for restaurants and hotels (per business premises)
- \$500,000 for travel agents and tourist coach operators (per business premises)
- \$300,000 for retail businesses, cinemas and karaoke establishments (per business premises)

12. Each application will require a personal guarantee from the establishment's shareholders. Such guarantors should be the beneficial owners of the business.

13. Applications are accepted from 5 May until 31 July 2003.

14. As at 28 May 2003, the breakdown of the approved loans by industries is as follows -

Industries	No. of Approved Loans	Amount of Loans (HK\$)
Restaurants/ Hotels/Guesthouses	119	64,645,681
Travel Agents/ Tourist Coach Operators	58	16,896,071
Retail Outlets	289	50,045,285
Total	466	131,587,037