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Finance Committee of the Legislative Council

Minutes of the 16th meeting
held at the Legislative Council Chamber
on Friday, 23 April 1999, at 2:30 pm

Members present :

Hon Ronald ARCULLI, JP (Chairman)
Hon CHAN Kam-lam (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, JP
Hon David CHU Yu-lin
Hon Cyd HO Sau-lan
Hon Albert HO Chun-yan
Hon Michael HO Mun-ka
Dr Hon Raymond HO Chung-tai, JP
Hon LEE Wing-tat
Hon LEE Cheuk-yan
Hon LEE Kai-ming, JP
Hon Fred LI Wah-ming
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon Margaret NG
Hon MA Fung-kwok
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon Christine LOH
Hon CHAN Kwok-keung
Hon CHAN Yuen-han
Hon Bernard CHAN
Hon CHAN Wing-chan
Dr Hon LEONG Che-hung, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon LEUNG Yiu-chung
Hon Gary CHENG Kai-nam
Hon SIN Chung-kai
Hon Andrew WONG Wang-fat, JP
Hon WONG Yung-kan
Hon Jasper TSANG Yok-sing, JP
Hon Howard YOUNG, JP
Dr Hon YEUNG Sum
Hon YEUNG Yiu-chung
Hon LAU Kong-wah
Hon Mrs Miriam LAU Kin-yee, JP
Hon Ambrose LAU Hon-chuen, JP
Hon Emily LAU Wai-hing, JP
Hon CHOY So-yuk
Hon SZETO Wah
Hon Timothy FOK Tsun-ting, JP

Hon LAW Chi-kwong, JP
Hon TAM Yiu-chung, JP
Dr Hon TANG Siu-tong, JP

Members absent :

Hon HO Sai-chu, JP
Hon Edward HO Sing-tin, JP
Hon Martin LEE Chu-ming, SC, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Dr Hon Philip WONG Yu-hong
Hon LAU Chin-shek, JP
Hon LAU Wong-fat, GBS, JP
Hon Andrew CHENG Kar-foo
Hon FUNG Chi-kin

Public officers attending :

Miss Denise YUE, JP
Secretary for the Treasury

Mrs Carrie LAM, JP
Deputy Secretary for the Treasury

Mr K K LAM
Principal Executive Officer (General), Finance Bureau

Mr Philip CHAN Kwan-ye
Principal Assistant Secretary for Security

Mr LEE Ming-kwai
Director of Management Services, Hong Kong Police Force

Mr P E HALLIDAY
Assistant Commissioner of Police

Mr George LEUNG
Chief Systems Manager of Hong Kong Police Force

Mr Alex MA
Assistant Director of Information Technology Services

Mr FOO Tsun-kong
Regional Commander Marine, Hong Kong Police Force

Mr LEE Wai-kuen
General Manager, Government Dockyard, Marine Department

Mr CHAN Ming-yau
Senior Maintenance Manager, Government Dockyard, Marine Department

Mr Robin IP, JP
Deputy Secretary for Constitutional Affairs

Miss Shirley YUNG
Principal Assistant Secretary for Constitutional Affairs

Mr LI Wing
Chief Electoral Officer

Mr Alex LEE
Chief Systems Manager of Information Technology Services Department

Mr Alan SIU
Principal Assistant Secretary for Information Technology and Broadcasting

Mr Y C CHENG
Deputy Director of Information Technology Services

Mr Alan DIXEY
Assistant Director of Information Technology Services

Mr Owen WONG
Senior Systems Manager of Information Technology Services Department

Miss CHEUNG Siu-hing
Deputy Secretary for Trade and Industry

Mr Francis HO, JP
Director-General of Industry

Clerk in attendance :

Miss Polly YEUNG
Assistant Secretary General 1 (Acting)

Staff in attendance :

Ms LEUNG Siu-kum
Chief Assistant Secretary (1)2

Miss Becky YU
Senior Assistant Secretary (1)3

Item No. 6 - FCR(1999-2000)5

LOAN FUND

HEAD 275 - SMALL AND MEDIUM ENTERPRISES

Subhead 101 Special finance scheme for small and medium enterprises

20. On the risk-sharing ratio, Mr CHEUNG Man-kwong noted that with the proposed change in the ratio between the Government and participating lending institutions (PLIs) from 50:50 to 70:30, the maximum loan available to small and medium enterprises (SMEs) would be reduced from \$4 to \$2.86 million. He expressed concern that according to past experience, some 11% of applicants who applied for loans exceeding \$3 million would not be able to obtain adequate loans as a result of the change. Mr CHEUNG asked if the Government would consider raising its maximum guarantee limit from \$2 to \$2.8 million so that the maximum loan available to SMEs could remain at \$4 million.

21. In response, the Director-General of Industry (DG of I) advised that the change in risk-sharing ratio should not have a significant impact on the loan size of most applicants as statistics revealed that the average loan size per applicant was around \$700,000 to \$800,000. Moreover, the actual amount of loans to be offered to SMEs was determined by PLIs in accordance with their established lending principles. As regards those applicants who applied for loans exceeding \$2.86 million, DG of I admitted that they might not be able to obtain sufficient loans if PLIs strictly adhered to the risk-sharing ratio of 70 (Government):30 (PLIs). Notwithstanding, the Administration had to strike a balance between the interest of these applicants and the need to optimize the number of beneficiaries under the Special Finance Scheme (SFS). At Ms CHOY So-yuk's request, the Administration undertook to provide information on the number of successful applications involving a loan facility of less than \$2.86 million. Admin.

22. Mr CHEUNG was not convinced of the Administration's response. He remarked that of the total commitment of \$2.5 billion under the Scheme, only \$770 million had been approved so far. As such, the Scheme should have adequate financial support to help the 11% of applicants in question to obtain sufficient loans. DG of I however pointed out that as PLIs would tend to be more lenient in considering loan applications after the change in risk-sharing ratio, the number of successful applications under SFS was expected to increase shortly. Whilst agreeing with the need to optimize the number of beneficiaries, the Chairman asked if the Administration would re-visit Mr CHEUNG's suggestion of raising the maximum guarantee limit to \$2.8 million if it was later found that no significant improvement had been made in the approval of loan applications. DG of I assured members that the Administration would keep SFS under constant review, but there was no plan for a major review for the time being. Nevertheless, the Administration would revert to the Finance Committee if circumstances warranted any revision to the Scheme.

23. As regards Ms CHOY So-yuk's concern that some PLIs might use SFS to offset other loans acquired by the beneficiaries, DG of I advised that as details of the agreement on loan facility was made between PLIs and SFS applicants, the Administration would not be in a position to know if the guarantee had been used to offset other loans. Nevertheless, the Administration would not provide the necessary guarantee if there was clear evidence indicating that this was the case. In fact, the Administration had rejected one SFS application on such grounds.

24. On default cases, DG of I advised that five default cases were registered as at 22 April 1999 and the loan involved amounted to \$7 million. PLIs would recover the loan through disposal of the collateral deposited by the relevant borrowers. If this was not feasible, the amount of loan would be shared between the Government and the PLIs concerned in accordance with the risk-sharing ratio.

25. Given the temporary nature of SFS, Mr NG Leung-sing considered that the Administration should look into other alternatives to provide assistance to SMEs on a longer term basis. DG of I took note of Mr NG's view and advised that the Administration was studying overseas experience in this respect. It would consult interested parties when more concrete proposals were available.

26. The Committee approved the proposal.

27. The Committee was adjourned at 3:45 pm.

Legislative Council Secretariat
July 1999

****Note by Clerk, PAC: Minutes of meeting on Item No. 6 only.***