

For Information

On 23.4.2003

LEGCO PANEL ON FINANCIAL AFFAIRS

Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries

Introduction

This paper informs Members of our proposal to set up a loan guarantee scheme to provide immediate cash-flow relief to industries badly hit by the outbreak of the Severe Acute Respiratory Syndrome (SARS) for payment of their employees' salaries.

Background

2. Since the outbreak of SARS in March, the number of tourists visiting Hong Kong between 16 March and 15 April 2003 has dropped by 33.4% to 880,000 as compared to the same period last year¹. Sales in restaurants, retail outlets, and cinemas and karaokes have also slumped sharply. Quite a number of operations in these sectors have closed down or are facing liquidation. Some, notably restaurants, have temporarily closed whilst others have asked their employees to take no pay leave until further notice. Many employees have been retrenched or have had their salaries cut.

¹ If we also take into account the growth of 28.7% in January and February 2003, the drop in March and April may be interpreted as much more substantial. In 2002, visitor arrivals in March and April were 17.6% more than the number of January and February.

3. Whilst the Government is making every effort to control the disease and restore tourist and consumer confidence, the impact on businesses in these consumer-led sectors has been particularly acute and may last for a while. Since many operations in these sectors are small and medium enterprises which rely heavily on daily business turn-over and short-term cash-flow, the sudden slump has created a tremendous strain on their working capital. We believe that there is a strong case for the Government to establish a low-interest loan guarantee scheme to provide short-term cash-flow relief to these operations to help them tide over this exceptionally difficult period and to preserve jobs.

Proposed Scheme

4. We propose to set up a \$3.5 billion loan guarantee scheme for restaurants and hotels, travel agents and related operations, retail outlets as well as cinemas and karaokes. Under the scheme, the Government will provide 100% guarantee for loans by participating lending institutions to operations in these four sectors according to the framework of arrangements outlined below.

(A) Coverage

(i) Restaurants and hotels

5. These include establishments such as restaurants, fast food shops, and other eating and drinking places licensed by the Food, Environment and Hygiene Department, and hotels and guesthouses licensed by the Home Affairs Department.

6. Within this category, there are some 10,000 restaurants with an employment of about 180,000, and 960 hotels and guesthouses with an employment of 25,000.

(ii) Travel agents and related operations

7. These include travel agents licensed to operate by the Registrar of Travel Agents (RTA), and tourist coach operators licensed by the Transport Department. There are about 1320 travel agents with an employment of 20,000, and 1,570 tourist coach operators with an employment of over 3,000 people.

(iii) Retail

8. This sector includes all companies which have fixed premises and are primarily engaged in the businesses of selling tangible goods/products to the general public as end-users or consumers rather than for resale purposes. Such an establishment must have more than half of its turnover derived from such sale of tangible goods/products. There are some 58,000 such establishments, employing around 211,000 persons in the sector.

(iv) Cinemas and Karaoke

9. This sector includes all cinema operators licensed under the Places of Public Entertainment Ordinance and karaoke establishment operators regulated under the Karaoke Establishment Ordinance. There are about 70 cinemas, employing around 1,300 workers, and around 230 karaoke establishments which we estimate employ around 4,100 persons.

(B) Eligibility

10. Except for restaurants, we propose that companies falling under the above categories should have been in operation and holding a valid Business Registration Certificate for a year in order to qualify for application. Since as many as 10% of the restaurants were licensed within the past twelve months, we consider that the qualifying operation period for restaurants should be set at six months instead.

11. Applicant entities can be sole proprietorship, partnership or corporation. There will be no ceiling or floor on the number of employees. To safeguard against possible abuse, however, applicants would need to present to lending institutions clear statements confirming no double borrowing, no default in other banks and loss of at least 30% business in March this year as compared with the monthly average of the previous six months.

(C) Use of Loans

12. The loans must be used for payment of staff salaries. Applicants have to produce a statement of the employers' contribution to the Mandatory Provident Fund Scheme as proof of employment relations.

(D) Guarantee Limits

13. In view of their different scale of operations and the varying degree of impact of SARS on their business, we propose that the guarantee ceiling for each application should be \$1 million for restaurants and hotels, \$500,000 for travel agents and related operations, and \$300,000 for retail, cinema and karaoke operations.

14. Each application will require personal guarantee from the establishment's shareholder or in the case of more than one shareholders, joint and several guarantee executed by shareholders holding 90% or more of equity interest for the full amount of the loan. Such shareholders should be the ultimate beneficial owner of the applicant, and not, for example, a limited liability company.

(E) Application and Draw-down Period

15. We propose to open the scheme for application from 2 May to 31 July 2003, subject to the availability of funds in the scheme, and unless otherwise extended.

16. We also propose that, subject to the specified guarantee limits in paragraph 13, the scheme should cover three months' of an applicant's salary payment.

(F) Interest

17. The interest charged will be the average best lending rate of the note-issuing bank minus 3%, payable monthly in arrears.

(G) Participating Lending Institutions

18. All authorized institutions under the Banking Ordinance will be invited to join the Scheme.

Way Forward

19. Members are invited to note the contents of the Paper. We intend to seek approval from the Finance Committee on 25 April.

Economic Development and Labour Bureau
Commerce and Industry and Technology Bureau

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