

For information

**Legislative Council Panel on Financial Affairs**  
**The Loan Guarantee Scheme**  
**for Severe Acute Respiratory Syndrome Impacted Industries**

**Introduction**

This paper briefs Members on the progress of implementation of the Loan Guarantee Scheme (“the Scheme”) for Severe Acute Respiratory Syndrome (“SARS”) Impacted Industries.

**Background**

2. Certain industries, notably the tourism, restaurant, retail and entertainment industries, experienced serious cash-flow problems as a result of the significant business downturn following the outbreak of SARS in early 2003.

3. On 25 April 2003, the Finance Committee approved a commitment of \$3.5 billion for the Government to set up the Scheme to provide 100% guarantee for loans extended by lending institutions to travel agents and tourist coach operators, restaurants and hotels, retail outlets as well as cinemas and karaoke establishments for the payment of employee salaries, with the object of preserving jobs. Applications for loans under the Scheme were accepted from 5 May until 31 July 2003.

4. Having reviewed the operation of the Scheme and considered the views of the industries and parties concerned, the Government proposed and the Finance Committee agreed at its meeting held on 30 May 2003 to liberalise two features of the Scheme. First, the requirement of joint and several guarantee for the loan from shareholders holding 90% or more equity interest in the establishment was reduced to 70%. Second, the loans, apart from paying wages, could also be used for other operating costs such as rental. Details of the Scheme are at Appendix 1.

5. The Scheme is administered by the Labour Department in consultation with the Financial Services and the Treasury Bureau as well

as the Commerce, Industry and Technology Bureau. The Permanent Secretary for Economic Development and Labour (Labour) / Commissioner for Labour is the Controlling Officer. At the meeting of the Finance Committee on 25 April 2003, the Administration undertook to report to the Panel on Financial Affairs (“the Panel”) the operation of the Scheme one year after its implementation.

### **Participation of Lending Institutions**

6. All authorized institutions under the Banking Ordinance (Cap. 155) were invited to join the Scheme. A total of 23 institutions participated. A list of the participating lending institutions is at Appendix 2.

7. The lending institutions entered into a Deed with the Government on 30 April 2003 that clearly set out the lenders’ obligations, eligibility requirements of the borrowers, conditions for claiming payments as well as details for recoveries. A Supplemental Deed was signed between the lending institutions and the Government on 9 June 2003 to reflect changes to the Scheme arising from the review.

8. As provided under the Deed, the Government relies on the professional skill, judgment, care and due diligence of the lending institutions, having regard to the Government’s interest in the Scheme. The lending institutions should exercise prudent professional judgment in assessing and vetting the applications. They are also required to comply with the Code of Banking Practice in processing and administering loans approved under the Scheme.

### **Close of Applications and Results**

9. At the close of application on 31 July 2003, a total of 1,802 loan applications were received. Of these, 1,559 applications with an aggregate loan amount of HK\$499,204,781 were approved. The successful applicants employed altogether 18,236 staff. A breakdown of the approved applications and loan amounts by industry is at Appendix 3.

### **Default Situation**

10. As at 15 April 2004, we received only two claims from one participating lending institution for the Government’s guarantee in respect of two loans made to restaurants which had become insolvent. Payment of \$1.44 million has been effected. In both cases, the lending institution has

reached repayment agreement with the guarantors and it is hoped that the monies could be recovered and returned to the Government in due course.

11. Under the Scheme, borrowers are allowed a six-month grace period for repaying the principal after the first drawdown. It is therefore premature to assess the future overall default situation.

### **Submission of Progress Report**

12. The Administration will continue to monitor closely the operation of the Scheme. Another progress report on the Scheme will be submitted to the Panel in 6 months' time.

Economic Development and Labour Bureau  
Financial Services and the Treasury Bureau  
Commerce, Industry and Technology Bureau

May 2004

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

**Coverage**

The Scheme covers restaurants and hotels, travel agents and tourist coach operators, retail outlets as well as cinemas and karaoke establishments.

**Eligibility**

2. Except for restaurants, all businesses of the above-mentioned sectors should have been operating and holding a valid Business Registration Certificate for one year in order to qualify. For restaurants, the qualifying operation period was six months.

3. Applicants should have maintained an operating account with the participating banks for more than six months with satisfactory account conduct.

4. Applicants could be sole proprietors, partnerships or limited companies. Companies listed on the Stock Exchange of Hong Kong Ltd (whether the Main Board or the Growth Enterprise Market) or any overseas exchanges were not eligible.

5. Applicants were expected to provide evidence that they had suffered at least a 30% decline in sales turnover or revenue income in April in 2003 compared with the monthly average of the three months preceding April.

6. Applicants would have to produce a statement of the employers' contribution to the Mandatory Provident Fund Scheme or Occupational Retirement Schemes as proof of employment relations and size of workforce. They would also be required to produce other relevant documents for examination.

7. Each application would require a personal guarantee from the establishment's shareholder(s) if the applicant was a limited company. If

there was more than one shareholder, a joint and several guarantee for the full amount of the loan would be required from shareholders holding 70%\* or more equity interest in the business. Such guarantors should be the beneficial owners of the business.

(Note\*: Originally, a joint and several guarantee for the full amount of the loan was required from shareholders holding 90% equity interest. It was revised downwards to 70% as from 15 June 2003 after a review of the Scheme.)

### **Facility Size and Interest Rate**

8. Prior to 14 June 2003, the maximum amount of the loan was up to the employee wages for three months per business premise, or the following specified ceiling for each sector, whichever is the less, and the approved loan could only be used to pay employee salaries: -

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

9. After the relaxation of the Scheme on 15 June 2003, the maximum amount of the loan that an applicant might borrow would be the lower of:-

(3 months' wages + 3 months' rents\*\*) x 2 (per business premises)

(Note\*\* : "3 months' rent" could also be taken as 25% of the rateable value of such premise. In the case of a travel agent or tourist coach operator, it included parking fees for tourist coaches. The monthly parking fee for a tourist coach was set at \$2,500.)

or the guarantee ceiling specified for each sector as stated above.

10. The loan was made up of two portions. Portion A, equivalent to 3 months' wages, was for meeting wages. Portion B, the difference between the total loan amount and Portion A, was for financing operating expenses.

11. An applicant could apply for Portion B only if he had applied or was applying at the same time for Portion A. However, a sole proprietorship or partnership with no employee as evidenced by the

applicant's Mandatory Provident Fund / provident fund contribution statements might apply for Portion B only. The applicant might only apply once for each of Portion A and Portion B.

12. For applications made before 14 June 2003, the Borrowers could apply for an additional loan to meet operating expense, if the loan approved had not yet reached the guarantee ceiling specified for that particular sector.

13. An interest rate of 3% per annum below the prime lending rate for Hong Kong Dollars quoted by the banks from time to time, or 1% per annum, whichever was higher, would be charged.

### **Repayment Arrangements**

14. The maximum repayment period for each of Portion A and Portion B would be 30 months. The banks would offer the applicants a six-month grace period for repayment of the loan principal. Applicants were therefore only required to pay interest monthly in the first six months. Repayment of the principal together with interest would start from the seventh month after the respective date of the initial drawdown of Portion A and Portion B over a maximum of 24 monthly instalments on a reducing balance basis.

### **The Government Guarantee**

15. Under the Scheme, the Government will provide 100% guarantee of all loans extended by the participating lending institutions. When a borrower defaults on repayment, the lending institution will initiate recovery actions with regard to its own policy and the usual commercial practice, including the issuance of demand letters. When a default is ascertained, the lending institution can claim guarantee payment from the Government within a period of six months. If the Government is satisfied that the claim is valid and proper, it will make payment to the lending institution in 29 days.

### **Loan Recovery**

16. In making a claim to the Government for the guarantee, the lending institution has to provide recommendation with justifications on whether or not the outstanding amount should be further pursued by the

Government, and if so, whether by the lending institution itself or the Debt Management Company Ltd (“DMC”). DMC is a non-profit-making entity owned and operated by six lending institutions participating in the Scheme, namely, The Hong Kong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, The Bank of East Asia, Limited, Citibank, N.A., DBS Bank (Hong Kong) Limited and Standard Chartered Bank to help the Government recover the loans.

17. If the lending institution recommends pursuit of the loan by itself, it will have to take practicable steps, which may include initiation of legal proceedings against the relevant borrower and the guarantors as it reasonably believes may result in recovery of all or part of the loan. If the lending institution does not opt to pursue loan recovery by itself, DMC will be assigned the benefits of the loans for recovery. To safeguard the Government’s interest, even if the lending institution does not recommend recovery by itself or DMC, the default case will still be sent to DMC for re-examination. For such cases, DMC can still take up recovery action if considered appropriate. Monies recovered from a loan will be first used to settle legal fees and expenses, if incurred, to contributing parties. The remaining amount will be returned to the Government.

### **Operation of the Debt Management Company and the Collectors**

18. DMC has three Directors, including a banker, an accountant and a lawyer who are all renowned persons in their respective professions and who provide their service on a voluntary and free-of-charge basis. They are Mr Christopher R Page, Chief Credit Officer of the Hong Kong and Shanghai Banking Corporation Limited, Mr John Lees, Director of the John Lees & Associates Ltd. and Mr John M Marsden, Partner of Johnson Stokes & Master. DMC will appoint Collectors, which are accounting firms on the Administrative Panel of Insolvency Practitioners (Panel A List) maintained by the Official Receiver’s Office of the Government, to recover the loans.

19. The Government will reimburse DMC operating expenses and costs reasonably incurred in recovery action. If the lending institution recommends pursuit to be carried out by DMC, any legal fees, if incurred, shall be borne by the lending institution and the Government on an equal basis subject to certain conditions. As for the Collectors, no fee is payable if no surplus money is recovered from the Borrower and the Guarantors after deducting the legal costs. In case of a surplus, the Collectors will be remunerated, subject to a limit of 25 percent of the recovered monies after legal costs are deducted.

20. DMC will oversee the performance of the Collectors. All legal action to be taken for recovery of the loans will have to be approved by its Directors. The Collectors can only appoint law firms or debt collection sub-agents out of a list approved by DMC. DMC will also establish procedures to handle complaints against the Collectors and maintain a register of complaints. Independent auditors will be appointed to audit DMC's policy for appointment of Collectors, DMC's book of accounts and the Collectors' files in respect of the loans.

21. The Government consulted the Hong Kong Monetary Authority and the Independent Commission Against Corruption before drawing up the Agreement signed between DMC and the Government on 16 October 2003.



**List of Participating Lending Institutions**

<b>No.</b>	<b>Name of Lending Institutions</b>
1	Asia Commercial Bank Limited
2	Bank of America (Asia) Limited
3	Bank of China (Hong Kong) Limited
4	Bank of Communications
5	BNP Paribas
6	Chekiang First Bank Limited
7	Chiyu Banking Corporation Limited
8	Citibank, N.A.
9	CITIC Ka Wah Bank Limited
10	Dah Sing Bank, Limited
11	DBS Bank (Hong Kong) Limited
12	Fortis Bank Asia HK
13	Hang Seng Bank Limited
14	Industrial and Commercial Bank of China (Asia) Limited
15	International Bank of Asia Limited
16	Liu Chong Hing Bank Limited
17	Nanyang Commercial Bank, Limited
18	Shanghai Commercial Bank Limited
19	Standard Chartered Bank
20	The Bank of East Asia, Limited
21	The Hong Kong and Shanghai Banking Corporation Limited
22	Wing Hang Bank, Limited
23	Wing Lung Bank Limited

**A Breakdown of  
the Approved Applications and Loan Amounts by Industry  
under the Loan Guarantee Scheme for  
Severe Acute Respiratory Syndrome Impacted Industries**

<b>Industry</b>	<b>Number of approved applications</b>	<b>Percentage of the total approved applications</b>	<b>Approved loan amounts</b>
Retailing Business	890	57.1%	\$163,826,041
Restaurant	462	29.6%	\$267,106,792
Travel Agent	151	9.7%	\$52,685,317
Tourist Coach Operator	51	3.3%	\$14,498,996
Hotel / Guesthouse	4	0.2%	\$788,000
Karaoke	1	0.1%	\$299,635
Cinema	0	-	-
<b>Total</b>	<b>1,559</b>	<b>100%</b>	<b>\$499,204,781</b>