

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 latest progress of the implementation of the Loan Guarantee Scheme (“the Scheme”) for Severe Acute Respiratory Syndrome (“SARS”) Impacted Industries.

Background

2. At the Finance Committee meeting held on 25 April 2003, the Administration undertook to report to the Panel on Financial Affairs (“the Panel”) on the operation of the Scheme one year after its implementation and to submit progress report at six-monthly intervals thereafter. Eight reports have since been circulated to Members for information in May and November 2004, April and October 2005, May and November 2006 as well as May and November 2007. This is the ninth report submitted to the Panel.

Latest Financial Situation

3. Against the aggregate loan amount of \$499,204,781 approved at the close of application on 31 July 2003, the outstanding loan amount has been further reduced from \$452,855 as recorded on 30 September 2007 to \$214,977 (involving 12 cases for which Government’s approval had been granted to restructure the loans) on 31 March 2008.

Default Situation

4. As at 31 March 2008, lending institutions made 162 claims totalling \$31,384,828 for Government’s guarantee in respect of the default loans made under the Scheme. Payment had been effected to all these claims. Of the 162 claims, 87 (53.7%) came from the retail sector, 72 (44.4%) from the restaurant sector and three (1.9%) from the tourism sector. A breakdown of the claims by industry is at Annex 1.

Recovery Situation

5. We have taken recovery actions on the 162 default loans against the borrowers or the guarantors as appropriate. So far, 10 of the cases have made full repayments; repayment agreements have been reached in 85 default cases. In cases with repayment agreements reached, the borrowers/guarantors mostly agreed to repay the outstanding loans by instalments over an extended period. As at 31 March 2008, a total sum of \$6,000,916 has been recovered and returned to the Government.

6. The Administration will continue to closely monitor the progress of recovery for all outstanding cases under the Scheme including those with repayment agreements reached or proofs of debts relating to insolvency/bankruptcy/liquidation of the paying parties filed with the Official Receiver's Office. If abuses of the Scheme are found, investigation will be conducted with a view to initiating prosecution.

Concluding Remarks

7. The Scheme was set up in the wake of the outbreak of SARS in early 2003 with the object of preserving jobs in certain industries badly hit by SARS. Several years on, there has not been any new claim by the lending institutions since May 2006 for Government's guarantee of default loan. Apart from the 12 cases for which Government's approval had been granted to restructure the loans (paragraph 3 above), the validity for Government's guarantee of all loans under the Scheme had expired on 15 March 2007. Under such circumstances, guarantee payments made by the Administration would cease to grow. A summary of the progress of the Scheme is at [Annex 2](#).

8. In view of the stable development of the Scheme in the past two years, we propose to stop making half-yearly progress reports to the Panel. We will, however, keep Members informed in case of any significant changes under the Scheme in future.

Labour and Welfare Bureau
Financial Services and the Treasury Bureau
Commerce and Economic Development Bureau

May 2008

**A Breakdown of Approved Default Claims by Industry
under the Loan Guarantee Scheme for
Severe Acute Respiratory Syndrome Impacted Industries
(as at 31 March 2008)**

Industry	(a) Number of applications approved by lending institutions (%)	(b) Loan amount approved	(c) Number of Default Loans approved by the Government for Guarantee Payment (%)	(d) Amount paid	(e) Default Rate (d/b)
Retailing Business	890 (57.1%)	\$163,826,041	87 (53.7%)	\$8,384,240	5.1%
Restaurant	462 (29.6%)	\$267,106,792	72 (44.4%)	\$22,474,460	8.4%
Travel Agent	151 (9.7%)	\$52,685,317	3 (1.9%)	\$526,128	1.0%
Tourist Coach Operator	51 (3.3%)	\$14,498,996	0 (0%)	\$0	0%
Hotel / Guesthouse	4 (0.2%)	\$788,000	0 (0%)	\$0	0%
Karaoke	1 (0.1%)	\$299,635	0 (0%)	\$0	0%
Cinema	0 (0%)	\$0	0 (0%)	\$0	0%
Total	1 559 (100%)	\$499,204,781	162 (100%)	\$31,384,828	
Sum Recovered				\$6,000,916	
Net Pay-out				\$25,383,912	5.1%

**Summary of Progress
of the Loan Guarantee Scheme for
Severe Acute Respiratory Syndrome Impacted Industries**
(as at 31 March 2008)

Year	Number of applications for Government's guarantee payment approved (%)	Amount of Government guarantee payment effected (%)	Sum Recovered (%)
2004	95 (58.6%)	\$19,900,631 (63.4%)	\$688,021 (11.5%)
2005	59 (36.4%)	\$11,042,248 (35.2%)	\$3,211,823 (53.5%)
2006	8 (5.0%)	\$441,949 (1.4%)	\$1,668,955 (27.8%)
2007	0 (0%)	\$0 (0%)	\$289,276 (4.8%)
2008	0 (0%)	\$0 (0%)	\$142,841 (2.4%)
Total	162 (100%)	\$31,384,828 (100%)	\$6,000,916 (100%)