(Translation)

**Minutes of the 434th Meeting of the**

**Kadoorie Agricultural Aid Loan Fund Committee (KAALFC)**

**Held at 3:00 p.m. on Thursday, 4 June 2015**

**in Room 701A, 7th Floor, AFCD Headquarters,**

**Cheung Sha Wan Government Offices, Kowloon**

**Present**

 Mr. Alan WONG, JP Chairman

 (Director of Agriculture, Fisheries and Conservation)

 Dr. S. T. CHIU Member

 Ms. Judy KIU Member

 Ms. M. L. CHUNG Member

 Mr. James KONG Member

 Dr. K. K. LIU, JP Member

 (Assistant Director (Agriculture))

 Mr. Chris FUNG Secretary

 (Agricultural Officer (Development))

**In Attendance**

 Mr. Alex CHEUNG Senior Treasury Accountant

Dr. K. W. PAU Senior Agricultural Development Officer

 Mr. K. H. CHAN Senior Fisheries Officer (Fisheries Supporting Services)

 Mr. Jack TAM Official Languages Officer II

**Absent with Apologies**

 Mr. Eric TAM Member

**Opening Remarks**

20/15 The Chairman welcomed everyone to the meeting.

Agenda Items

1. **Confirmation of Minutes of the Last Meeting**

21/15 The minutes of the 433rd KAALFC meeting were confirmed without amendment.

1. **Discussion of KAALF Schedules and Report on Loans**
2. Schedule A1 – Cash Statement of the KAALF for the Quarter Ending 31 March 2015

22/15 Mr. Alex CHEUNG reported that the total asset of the KAALF as at 31 March this year was about $15.03 million, of which the total amount of outstanding normal loans increased from about $5.06 million in the same period last year to about $5.71 million this year. The bank balance stood at about $9.27 million for normal loans. Fixed deposits decreased from about $9.5 million in the same period last year to about $8.54 million this year, with an average interest rate of around 1.1%.

23/15 Mr. Alex CHEUNG continued that the total amount of outstanding special loans to mariculturists affected by red tide stood at about $1.55 million, involving five overdue cases. Senior Fisheries Officer Mr. K. H. CHAN would report on the recovery progress later.

24/15 In reply to the Chairman’s enquiry, Mr. Alex CHEUNG said that the balance of outstanding loans had been reducing; the Fund was in a healthy financial position.

1. Schedule A2 – Summary of Outstanding Loans of the KAALF for the Quarter Ending 31 March 2015
2. Normal Loans

25/15 Dr. K. W. PAU reported that as at 31 March this year, there were a total of 62 outstanding normal loans involving about $5.71 million, including four overdue cases of about $100,000. An overdue case of about $3,400 involved a mushroom farmer, who was being pursued through established procedures. The remaining three cases involved marine or pond fish, which would be reported by Mr. K. H. CHAN later.

(Ms. M. L. CHUNG attended the meeting at this juncture.)

26/15 Mr. K. H. CHAN reported that the three overdue cases involving fish culture had been referred to the Department of Justice (D of J) for assistance. The outstanding principal of one of the cases, which involved marine fish, was about $40,000. The D of J had already written to the borrower repeatedly to demand repayment, but no favourable response had been received. The AFCD would continue to discuss follow-up actions on this case with the D of J. As for the two cases involving pond fish, the outstanding principals were about $43,000 (shown as $50,000 on the Schedule, but $7,000 of it had in fact been repaid and was then in the D of J’s custody; it had not yet been returned to the KAALF, therefore the accounting records had not been updated) and $3,500 respectively. Apart from writing to the borrowers repeatedly to urge repayment, the D of J had also taken a series of actions, such as visiting each borrower’s/guarantor’s residential premises in an attempt to execute a Writ of Fieri Facias, but to no avail. The D of J had also tried to take garnishee proceedings, i.e. to recover the outstanding amounts from the borrowers’ bank deposits, but did not succeed either. The AFCD had repeated discussions on further actions with the D of J. As the loans had been overdue for long and the outstanding amounts were small, the D of J expressed the need to evaluate whether it was worthwhile to take further recovery actions. If the chance of successful recovery turned out to be slim, the AFCD would seek the D of J’s advice on writing off the loans.

27/15 In reply to the Chairman’s enquiry on the case involving marine fish, Mr. K. H. CHAN said that the borrower’s fish farm was still in operation at the moment; AFCD staff had also visited the borrower’s fish farm recently to get to know his/her financial position. So long as the borrower was willing to discuss a repayment schedule with the AFCD or the D of J, the two departments would in general consider accepting deferred repayment, depending on the borrower’s actual financial difficulty. This case had a better chance of successful recovery than other cases. The original loan amount was $100,000, of which $60,000 had been repaid.

28/15 In reply to the Chairman’s enquiry on credit records, Mr. K. H. CHAN said that, regarding the fisheries loans under the KAALF, the AFCD had maintained every borrower’s credit records as appropriate. If a borrower applied for loan again, the credit records would be used as reference. With respect to the two overdue cases involving pond fish, since it was the first time that the borrowers applied for loan, no past records of them had been kept. As for the case involving marine fish, the borrower had clean repayment records.

29/15 In reply to the Chairman’s enquiry, Dr. K. W. PAU said that there was similar practice with regard to agricultural loans. The borrower’s repayment records would be assessed in approving each loan application.

1. Special Loans Issued to Mariculturists Affected by Red Tide

30/15 Mr. K. H. CHAN pointed out that one-off special loans were granted under the Scheme established in 1998 to mariculturists affected by the red tide that occurred in the same year. A total of 832 loans involving about $130 million had been granted under the Scheme. As at 31 March this year, there were five overdue cases of about $1.49 million (shown as $1.55 million on the Schedule, but $60,000 of it had in fact been repaid and was then in the D of J’s custody; it had not yet been returned to the KAALF, therefore the accounting records had not been updated). All those cases had been referred to the D of J for follow-up. Details of the cases were as follows:

* + - * The D of J was assisting in recovering the loan in one case where the borrower had to repay according to the agreement with the D of J. $60,000 had been repaid and about $33,000 of the principal remained outstanding. A charging order had been created on the premises of the borrower and vessel(s) had been put up as collateral.
* For the remaining four cases where four borrowers had jointly and severally covenanted to repay the loans, all the borrowers had gone bankrupt. The bankruptcy orders had been discharged in 2006 to 2012, and the guarantor of the four loans had passed away. After the D of J had noticed that there were individuals who intended to administer the deceased’s estate, it tried repeatedly to contact the individuals in question, but received no response from their lawyers; the D of J had therefore no idea of the amount of the estate. The AFCD had enquired the D of J regularly about the progress. In reply to the AFCD’s recent enquiry, the D of J commented that at the moment, it still did not recommend writing off the outstanding amounts. The D of J further explained that since there were individuals who intended to administer the deceased’s estate, part of the outstanding amounts might still be recoverable. In the light of the above, it did not recommend writing off the outstanding amounts before confirming that they would not be recoverable at all.

31/15 In response to the Chairman’s enquiry, Mr. James KONG said that, in the industry, there were often similar cases of default in loan repayment. Such loans would usually be written off if the outstanding amounts were too small. Nevertheless, since the loans under the KAALF were public fund, they would not normally be written off unless it was confirmed that they were not recoverable.

**III. Discussion of J. E. Joseph Trust Fund Schedules and Report on Loans**

1. Schedule B1 – Cash Statement of the J. E. Joseph Trust Fund for the Quarter Ending 31 March 2015

32/15 Mr. Alex CHEUNG reported that as at 31 March this year, the J. E. Joseph Trust Fund (the Trust Fund) had received about $330,000 of loan repayments in the quarter, resulting in a drop of its outstanding loan balance from about $2.82 million in the same period last year to about $2.06 million this year. The bank balance of the Trust Fund was about $17.05 million, in which fixed deposits increased from about $15.75 million in the same period last year to about $16.8 million this year, with an average interest rate of around 1.17%, which was slightly higher than that of the KAALF. With the total assets increased to $19.17 million, the Trust Fund was in a healthy financial position.

1. Schedule B2 – Summary of Outstanding Loans of the J. E. Joseph Trust Fund for the Quarter Ending 31 March 2015

33/15 Dr. K. W. PAU reported that as at 31 March this year, there were a total of 17 loans involving about $2.06 million of outstanding loans, among which 2 were special loans granted in early years for assisting chicken farmers to install bird-proof metal meshes for preventing avian influenza. Loans totalling $9.2 million had been granted to 22 farms and about $8.96 million (i.e. 97%) repaid. One of the two outstanding loans had been repaid in April; the borrower of the other outstanding loan, involving $193,000, applied for deferred repayment in 20 instalments successfully in mid-March. The outstanding amount was expected to be fully repaid in November next year. There was no overdue case under the Trust Fund at the moment, which was the same as the situation of the last quarter.

**IV. Any Other Business**

34/15 Mr. Alex CHEUNG reported that the Financial Services and the Treasury Bureau (FSTB) had earlier offered a one-off investment opportunity for various policy bureaux and departments, in order to pool small-scale funds managed by various policy bureaux and departments to invest in the Exchange Fund for higher returns. The past performance of the Exchange Fund indicated an annual rate of return of about 5% to 6%. However, the investment period would be six years, throughout which withdrawal from the investment would not be allowed. As the applications for the KAALF and the Trust Fund were determined by demand, the number of applications as well as the amount of loans granted varied from year to year and were hardly predictable. In the light of the above, with a view to ensuring sufficient liquidity to cope with a large number of sudden and unexpected applications, the AFCD had declined the FSTB’s offer with the Chairman’s consent after due consideration.

35/15 Mr. Alex CHEUNG continued that the AFCD had also reviewed the current investment strategy of the Funds and studied the feasibility of investing in stocks or securities for higher returns; nevertheless, it seemed infeasible for three reasons. First of all, under the current regulations of the Securities and Futures Commission, qualification as a professional investor, i.e. with total assets of not less than $40 million, was required to trade in stocks or bonds; secondly, trading in stocks or bonds had to be undertaken by experienced professionals who were able to keep track of the market and make technical analysis. Given the relatively small amount of total assets of the two Funds at the moment, it might not be cost-effective to employ qualified investment managers to manage the Funds; furthermore, as aforementioned, applications for the loans were determined by demand, and the purpose of granting the loans was to provide assistance to farmers or fishermen affected by unexpected natural disasters. The number of applications would skyrocket in the case of natural disasters, which were however often unpredictable; it was therefore difficult to allocate a certain amount for medium to long term investment based on past records. After taking all these factors into consideration, the AFCD recommended continuing with the current practice, i.e. to invest the surplus of the Funds as fixed deposits, with a view to ensuring sufficient liquidity for coping with unexpected rise in the number of loan applications. He also wished to take this opportunity to seek members’ views on the current practice.

36/15 The Chairman further explained that the principle of the Funds was to balance risks and returns. Currently, the fixed deposits of the two Funds totalled about $25 million and the returns on investment in stocks or bonds would be about $1 million more than that from the interest of bank deposits; yet, the risk would be that the original objectives of the Funds might not be fulfilled. In this connection, the AFCD considered it not worthwhile to invest in stocks or bonds.

37/15 Mr. James KONG agreed with the Chairman’s remark. He pointed out that, after all, the total amount of the Funds was relative small; therefore, the Funds should not be allocated at will, with a view to serving their original purpose. Other members also agreed with the AFCD’s recommendation to continue investing the surplus of the Funds as fixed deposits.

**V. Date of Next Meeting**

38/15 The next meeting was tentatively scheduled at 3:00 p.m. on Thursday, 3 December 2015.

39/15 The meeting was adjourned at 3:30 p.m.