

**POKFULAM DEVELOPMENT COMPANY LTD :
SO YOU WANT TO INVEST IN THE PRC, DO YOU ?**

The next time that TARGET hears of how good it is to invest in the People's Republic of China (PRC) (proper), this scribe will remind the utterer of that statement of the disastrous experiences of publicly listed Pokfulam Development Company Ltd.

Pokfulam suffered tragically in the last Financial Year, ended September 30, 1999, as a direct result of its abortions of investments in the PRC.

The 1999 financial results were the worst since 1994.

The Chairman of Pokfulam, Mr Wong Bing Lai, has told his shareholders of the reasons for the Company's woes.

He said, with regard to the Company's 'Projects in the Mainland':

'Silver Gain Plaza in Guangzhou – the Group has an effective interest of 19% in this project. Due to the recent revision of the Guangzhou metropolitan road and town planning, a bus stop has encroached into a small portion of the frontage of the property. As a result of this encroachment, modification to the original plan for the affected portion of the project becomes necessary. Construction of the superstructure for the first phase of the project which comprises a 28-storey residential tower on top of a 3-storey podium for retail/commercial purpose would commence upon approval of the plan modification by the local authority.'

'The Zhong Shan Harbour Main Road Project in Zhong Shan City – The Group has an effective interest of 30% in this project – Development work of the residential/commercial project has been suspended due to the resumption of a portion of land at the southwest corner of the site for highway construction. Even though the local authority has agreed to grant an adjoining parcel of land as part of the compensation, the negotiation process for full settlement of the land resumption has been very slow. The economic recession has also affected the Zhong Shan property market. In view of the sluggish market condition and oversupply of new resident/commercial properties in that area, the Group and its partners have decided to put this development project on hold until the local property market has improved.'

'16 Residential Units in Vivaldi Court of Manhattan Garden, Chao Yang District, Beijing – The ongoing construction work in an adjacent site has adversely affected the letting of the Group's holdings in this residential development. This, coupled with the increase in supply and decrease in rental rate of residential properties in Beijing, has caused a decline in the yield from this project.'

The Silver Gain Plaza Project was started in 1992 and was mentioned in Chairman B.L. Wong's Statement to Shareholders in the following terms:

'NEW ACQUISITIONS AND JOINT DEVELOPMENTS

'The Group has formed a joint venture company with two other independent third parties to participate jointly with a Guangzhou property company in the development of a commercial-residential complex in the city of Guangzhou. The site has an area of 346,000 sq. ft. and is located on Dong Xiao Road on the south side of the Pearl River adjacent to a major river bridge. The

proposed development has a total building area in excess of one million sq. ft. Construction will commence as soon as approval is obtained from relevant authorities. The Group has an effective 19% in this project.

'The Group has signed a letter of intent to participate in a retail/residential development project in Zhong Shan with 3 other independent third parties. The site has an area of 676,000 sq. ft. with an approved plot ratio of 1.5. It is located on Zhong Shan Harbour Road in Zhang Jia Bian District of Zhong Shan. The project is still in the planning stage and the Group has an effective interest of 30%.'

By September 30, 1993, the amount of money that had been invested in the 2, above-mentioned projects had escalated into about \$HK42.64 million.

By September 30, 1995, 2 years down the slippery PRC 'road', the amount of money, that had been invested in the 2, above-mentioned projects, had risen again, reaching about \$HK51.54 million.

In the 1995 Annual Report of the Company, Chairman B.L. Wong, with regard to the 2, above-mentioned projects, said, inter alia:

'... Foundation work (on the Dong Xiao Road Project) will commence as soon as our Chinese partner fulfills their obligation to clear existing temporary structures from the site. Marketing for the first phase is anticipated to begin after completion of the foundation work'

'... Foundation work for this project (the Zhong Shan Harbour Main Road Project) had been suspended at the request of the local authorities early this year due to the encroachment of a newly planned highway into the southwest corner of the property. Negotiation for the compensation has been underway with local authorities. Redesign work for the affected portion of the project will commence after conclusion of the negotiation.'

It seems only too clear that, even if these 2 projects were restarted, the \$HK51.54 million, invested in them, could never be recovered; and, even the ability to recoup the capital invested would not take into account the Opportunity Cost Loss and the notional interest factor.

The Canadian Property Investment Fiasco

To be totally fair to Chairman B.L. Wong, the PRC was not the only place where he has screwed up – because he has done a pretty good job of screwing up in Toronto, Canada, too.

In 1992, Pokfulam announced that it had obtained ... [CLICK TO ORDER FULL ARTICLE](#)