

**BEWARE OF CHINESE-BASED COMPANIES,  
WANTING TO LEASE YOUR COMMERCIAL PROPERTY !**

Many corporate landlords of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) have had their fill of renting prime real estate to corporate entities, whose principals live in the PRC, proper.

According to a survey, conducted by **TARGET** (), many, if not most, Registered Owners of Grade A Commercial Space in the Central Business District of Hongkong Island, are loath to enter into new lease agreements with corporate entities, domiciled in the PRC, proper, or in one of the off-shore tax havens, such as the British Virgin Islands, because, in the event that the corporate tenants run into financial difficulties, their management will just lock the doors of their offices and cross the Lowu Border, leaving the HKSAR landlord out of pocket – and a chronic headache to boot.

It could take as long as 6 months, after an errant tenant has done a runner from the territory, for an HKSAR corporate landlord to be able to regain possession of his property.

In order to achieve an HKSAR landlord's goal of re-entering his property, an application is required to be lodged in the HKSAR High Court for Possession, with proof, presented to the Court, that the tenant owes the corporate tenant a certain number of months' rent and, despite requests and demands, no money has been forthcoming over a certain extended period of time.

To try to sue a principal of a corporate entity, who lives in the PRC, proper, who might have signed a Guarantee on behalf of his company, guaranteeing rent, rates, etc, with the promise of taking up the obligations of his company in the event of any default, is pretty much a waste of time because, in the PRC, proper, it is quite easy for people to disappear in one of the many large cities of the country.

Civil debts, incurred in the HKSAR, are not, normally, extraditable offences as soon as a debtor has crossed the Hongkong Border with the PRC, proper – unless the debtor is being chased by some powerful HKSAR mogul, who can well afford to spend a considerable sum of money in order to satisfy his ego by tracking down the runaway debtor, using, in some cases, dubious legal means.

Another problem with trying to go after an individual Guarantor of a corporate entity, is that, in the PRC, proper, the spelling of a Chinese national in the north of the country is often vastly different from the spelling of a Chinese national in the south of the country.

The Chinese radicals may be identical, but the English transliterations are completely different.

And that is assuming that a debtor has not lodged a Deed Poll in the PRC, proper, or some other such document, allowing him/her to change his name, legally.

Weighed up against an HKSAR corporate entity with a known history of paying bills on time, HKSAR landlords would prefer to lease commercial property to the HKSAR corporate entity, rather than take a chance on an unknown entity, whose principals are known to be domiciled in the PRC, proper.

A number of HKSAR banks, also, have got into the act and have adopted a policy of extending credit to HKSAR corporate landlords, partly based on their assessment of the quality of the tenants, leasing the landlords' commercial property.

HKSAR banks know, only too well, that even viewing profit and loss accounts of many PRC-domiciled

companies, applying to landlords of the HKSAR to lease commercial property, may well indicate little to nothing about the PRC corporate entity or its true financials.

This is because, in the PRC, proper, creative accounting practices are rampant and many PRC-based, auditing firms, in order to keep their clients, are quite willing to turn a blind eye to certain failings within their clients' businesses.

Since accounting is a subjective art, it is nearly impossible to take an auditing firm to task, especially one, operating exclusively in the PRC, proper.

(**TARGET** is not referring to the so-called Big Four international accounting companies, with offices in the PRC, proper.)

Recently, one formerly large corporate landlord, which used to own about \$HK500-million worth of Grade A commercial property in the Central Business District of the HKSAR, was sued for about \$HK15 million.

In **TARGET**'s survey, it was discovered that the corporate landlord continues to have considerable real assets on its books, but because a number of this company's tenants have not paid rent for some months, the company is suffering a cash-flow problem as banks declare that they are not concerned with their customers' problems with regard to errant tenants: They just want their mortgage money, paid on time.

Banks do not take kindly to be asked to be vicarious parties to the problems of their customers.

The situation in the HKSAR, today, is not restricted to private companies, but, also, it extends even to publicly listed companies, quoted on The Stock Exchange of Hongkong Ltd.

Regardless of the bona fides of publicly listed companies, especially those that are domiciled in, say, the Cayman Islands or the British Virgin Islands, but whose businesses are conducted, mainly, in the PRC, proper, it is impossible to force such a company to cough up with rent money if they determine not to do so.

This is because, in most cases, these companies have little to no funds in the HKSAR, other than small amounts of cash to cover day-to-day running expenses.

Also, corporate landlords of the HKSAR may not know that a certain tenant has done a runner until, perhaps, 6 months after the act because, in many cases, the HKSAR Principal Place of Business of many PRC companies are, for the most part, a couple of desks and little else.

These companies may not even be manned during most of the month because the HKSAR offices are established in order to satisfy the requirements of The Listing Committee of The Stock Exchange of Hongkong Ltd, only.

This is especially true for financially weak companies, listed on The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd.

**TARGET**'s survey indicated, conclusively, that the love affair with PRC companies has waned, appreciably.

-- E N D --

***While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.***

*If readers feel that they would like to voice their opinions about that which they have read in **TARGET**, please feel free to e-mail your views to [editor@targetnewspapers.com](mailto:editor@targetnewspapers.com) or [targnews@hkstar.com](mailto:targnews@hkstar.com). **TARGET** does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.*