



The Betty Letters

My Dear Grandchild,

I have read another of my husband's very secret reports from Beijing. (You will recall that I told you, some time back, that Bo-Bo is involved on fringes of Chinese political machinations: He holds a very important position on a committee, involved in street sweeping, or something like that.) The latest secret report from Beijing is about certain Hongkong companies that have reneged on their financial commitments to their joint-venture partners, engaged in property developments and infrastructure developments in the Motherland. Interestingly enough, the companies that have not paid money to their putative, China-domiciled partners, according to the secret reports, all have names, such as Sino-This Company Ltd, Sino-That Company Ltd, SinoCorp Morning Playing Ltd, Hongkong Sino Broking Corporation, etc, etc, etc. One company even has the name, Sino-If-You-Will Company Ltd. Sino seems to be the name that many Hongkong companies like to use when dealing with investments in China. But it appears, also, that some of these Hongkong, joint-venture partners have bitten off a little bit more than they can chew, monetarily speaking, you understand. I, really, did not want to read the secret reports, sent to Bo-Bo, but, as an habitual nosey parker, extraordinaire, I really could not restrain myself – especially when The Frog leaves the secret reports right under my nose. Beijing, it seems, is more than a little upset with a number of Hongkong corporate entities, because promises, made by senior management of these Hongkong entities, only about 6 months ago, in respect of important infrastructural projects and very material property developments in the Motherland, some of which will cost billions of dollars to complete, are not being kept. At dinner, just last night, I asked The Frog what was happening in Beijing, alluding to the secret reports without suggesting that I had even seen them. The Frog opened up – to my utter amazement! He said that he knew what was going on and that if the senior management of certain companies, listed on The Stock Exchange of Hongkong Ltd, do not honour their financial obligations to the Motherland, there could be trouble ahead. I pressed him for more information in between the soup and the roast chicken dish: 'I do not understand what you mean, my dear. What are you saying?' He, then, told me of the secret Beijing reports, in general terms, of course, stating that over-traders in Hongkong had left some of their Chinese partners, high and dry, because these partners had been counting on billions of dollars to be remitted from their Hongkong, joint-venture partners to get certain projects started. He went on to state that he knew of the case of the head of one company, who played heavily on stocks and shares, listed on the Main Board of The Stock Exchange of Hongkong Ltd, and, of late, he has been having cash-flow problems because he had been buying on margin. I pretended not to understand and asked for elaboration. The Frog continued. 'Look!' he started, 'Let's say that you buy some shares in Company A at \$HK5 per share, borrowing \$HK3 per share from your stockbroker. That is called buying on margin. It has nothing to do with the margin of a book, Betty. As long as the price of the shares of Company A continues to rise, or even holds steady, everything is OK. But, if the price of the shares falls below a certain level, then, your stockbroker might well ask you to top up the account. This is called a margin call. Now, getting back to the head of a certain Hongkong, publicly listed company, which has a joint venture on the Mainland (I can't tell you the name so don't ask me), I know that he is having trouble, meeting margin calls. Because he plays the Hongkong stock market for tens of millions of dollars, almost daily, he has been forced to take the money, originally earmarked for China, joint-venture projects, in order to meet the margin calls. Now, do you understand? And, because this person is such a silly fool, he is causing trouble to me, indirectly. I have been asked to help. This is not the first time that this silly fool has had such problems. I do not want to get involved because I know that I must fail in trying to squeeze money out of this skinny turnip.'

All very interesting stuff, don't you think? So, armed with The Frog's admission, I set out to try to discover

who was this chief, Hongkong defaulter. I had no luck in getting a name, I am sorry to relate, but I did discover that the prices of many shares of companies, listed on The Stock Exchange of Hongkong Ltd, have been falling, horrendously, over the past month or so. This must have squeezed many a publicly listed company, which is engaged in share trading and carries a hefty inventory of listed investments, held for trading. This is going to mean that, if a company's financial year ends in March or June, this year, there will have to be large provisions for losses in the market value of those listed investments, as shown in the consolidated balance sheets. The Bottom Line of such companies will be dented, without question, but, once again, I could not identify which company(ies) will be hurt the most. The likelihood exists for the Hang Seng Index, the key index of the Main Board of The Stock Exchange of Hongkong Ltd, to continue to drift to lower levels and, as it does, the losses in the market value of those listed investments, held by publicly listed companies for trading purposes, will fall. According to Alice, my manicurist – who is never wrong even though she is a Filipina – many Hongkong, publicly listed companies move quoted investments, as shown under current assets, to long-term investments (also known as non-current assets) and, by so doing, make claims that, since these investments are deemed long-term investments and not held for trading purposes, there is no requirement to make provisions against any diminution in the market value of them. Even if the auditing firms, inspecting the books of the companies, do not agree with the directors' assessment of the situation with regard to these quoted investments, it makes little difference because the directors can just thumb their noses at the auditing firms and accept qualifications to the accounts or even absolute disclaimers on the assumption that investors rarely read such qualifications/disclaimers.

Now, what does this mean to you and me? It means that some Hongkong, publicly listed companies are, already, in trouble, financially, and that, come the dawn of realisation, minority investors are likely to get it in the neck. All this will come to pass before the year is out unless there is an about-turn in the direction of the key indices of The Stock Exchange of Hongkong Ltd. And this, at this juncture, seems quite unlikely. If you have any shares, listed on The Stock Exchange of Hongkong Ltd, it would be in your best interests to consider selling some or all of those shares if you can get out with a small profit – or even just recover your initial investment.

So, My Dear Grandchild, don't soil your knickers when you learn how accurate is ...

The Chief Lady

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