

**PRC-GOVERNMENT 'AGENTS'
ARE OFFERING BILLION-DOLLAR LOANS**

While many a bank, inside and outside the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), smart at the thought that they will have to suffer and to make massive provisions due to poor management in PRC-Government-controlled corporate entities, there are, right at the doorstep of the HKSAR, agents, presumably in the employ of PRC-Government-controlled entities, trying to find a 'home' for tens of billions of Hongkong dollars.

According to an unimpeachable source, many a well-heeled businessman of the HKSAR has been approached by people, claiming to be PRC-Government agents, with pockets, bulging with PRC-Government banknotes, hot off the PRC printing presses, as the saying goes.

According to TARGET's source (TARGET has agreed not to divulge his name), usually, HKSAR brokers approach the head of a public company, listed, that is, on The Stock Exchange of Hongkong Ltd, or the head of a large privately held trading company, and offer loans of \$HK1 billion and more to the target companies, provided that the heads of the companies enter into a personal guarantees for the loan, or loans.

The terms of the loan are that the money shall be lent for a period, not exceeding 3 years, and that the interest rate shall be fixed at 8.50 percent per annum, simple interest.

The interest factor is to be paid monthly and, at the end of each quarter, starting from the date of the activation of the loan, there shall be a 10-percent payment of the unpaid principal sum.

So summarise: In the case of a \$HK1-billion loan, the borrower, at the end of the first quarter, would make a payment of not less than \$HK100 million, plus the interest factor at the rate of 8.50 percent per annum on the unpaid part of the principal.

At the end of the second quarter, the borrower would pay 10 percent of \$HK900 million (\$HK100 million, having already been paid at the end of the first quarter) plus the interest factor on the unpaid part of the principal.

And so on until the 36th month, at which time all outstanding balances would be retired in full with a balloon payment.

This is not one of those Nigerian confidence tricks, but a genuine attempt by the PRC Government to find a secure 'home' for hundreds of billions of dollars, most of which is lying idle in PRC banks.

As is normal in matters of high finance in the PRC Government, such matters as this are being kept very quiet in view of the fact that so many PRC-Government entities have gone belly up due to mismanagement, or corruption, or a combination of both.

One of the problems with this type of arrangement, TARGET was informed, is that, in the event that an HKSAR businessman defaults, it is more than likely to be the last default of his life.

In addition to the distinct possibility, that a man could lose his life should he not stay on good terms with the PRC-Government agent, affording the loan, is that a 3-year repayment schedule, even one whereby the loan plus interest are to be paid at the end of the 36-month term, may well be too short a period of time for the money to generate a reasonable rate of return, all things considered.

For a property project, even if the company had an available land bank and needed only bridge financing for a specific project, there is no guarantee that, when the project was completed, at the end of, say, 2 years, there

would be a ready market for the housing/commercial/industrial units, created in the project.

And a one-year marketing exercise for the created units in the project may, also, be too short a period of time to offload the units in the project.

Also, due to the nature of the loan, and the nature of the lenders, the terms and conditions of the loan preclude the possibility of the company, engaged in the property project, keeping the completed project as a long-term investment.

If that were to be the case, the property company and the person, who uttered a personal guarantee for the loan in favour of the lender, could well find himself in a great deal of trouble, both financially and health wise.

This loan arrangement is perfectly straightforward and absolutely legal, TARGET has been told (with the exception of the Sword of Damocles, hanging over the head of the borrower in the event of any kind of default) and it is being endorsed by PRC-Government officials in very high positions of power.

Some of the money has been identified as coming from the coffers of the People's Liberation Army (PLA), a PRC-Government powerhouse that is known to be one of the legs of the PRC Government.

Brokers in the HKSAR are, presently, very active, taking the PRC 'money' agents on missions to meet some of the HKSAR's most important, second-line companies, those companies whose managements are known to have been very conservative in the past and in which the companies have very low gearing.

TARGET's source of this report is the head of a very large property company whose gearing is below 12 percent of the Book Cost of his public company's property bank.

This company has been very quiet since about 1995 when Management adopted a policy of preferring not to have the company extend itself during the HKSAR property market's 1995 and 1996 bull phase, prior to the installation of Mr Tung Chee Hwa as Chief Executive of the HKSAR in 1997.

As a result of this known conservatism of Management, this public company is sitting pretty, with a property bank, which was purchased prior to the madness of 1996, and with a considerable amount of cash in the bank.

But, according to our source, there are still a number of question marks, hanging over the head of the HKSAR property market, and, until the dust settles on the financial storms of the past few years, now is not the time to be aggressive.

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