A Cantonese failure

Yue Xiu Enterprises, the overseas-investment arm of Canton's municipal government, is a typical example of a Chinese company born during the economic boom of the 1980s that has since come to grief.

Set up in 1985 in Hongkong with capital of HK$5 billion (US$641 million), the company today has assets of HK$3 billion. But it has slid into the red, helped along by a debt load estimated at HK$2.8 billion. According to general manager Guo Peinan, it had a loss of HK$100 million in 1989.

Yue Xiu has six wholly owned subsidiaries and stakes in 19 enterprises involved in trading, manufacturing, investment and property development. It also has 15 affiliated companies and offices in Thailand, Singapore, the US and France.

The company's trading subsidiaries handle a variety of exports, mostly from Canton. The trading operations generated revenue of HK$1 billion in 1989 with products ranging from plastics and cements to tennis shoes, paper and electrical appliances.

Yue Xiu's early progress was spearheaded by chairman Liang Shangli, a former vice-mayor of Canton. The influence and connections of Liang, referred to by the Chinese-language press in Hongkong as "Uncle Li," were instrumental in getting Yue Xiu off the ground.

But a lack of managerial experience eventually undermined the company, forcing the Canton government to replace its management in July, one month after a cash infusion from the city helped the company wipe clean the debt of 50%-owned Texxon Industries, which had filed for bankruptcy.

Yue Xiu's foray into the real-estate market signalled its ambitions to get rich quick. Another factor propelling it was the difficulty it had in securing a foothold in the competitive trading sector. Competition also hampered the company's expansion into tourism. Consequently, Yue Xiu set up joint-venture hotels in Peking, Xian and Lanzhou.

The company is able to enjoy political support despite its financial woes largely because of the patronage of Canton vice-mayor Lei Yu. General manager Guo had worked closely with Lei at Canton's Economic and Technological Development Zone before he took up his post in Hongkong.

In the company clean-up, Liang was sidelined to the post of honorary chairman. Zhou Baofen, his longtime friend, was removed from the board, and another close associate, Dong Shirun, was sacked as general manager.


MORGAN CHUA

Liang: Influence.

The Texxon debacle has caused banks to take a second look at Yue Xiu. According to a representative of a Japanese bank in Hongkong, the company has depended too much on banks, which in turn count on the moral obligation of the Chinese Government to keep the businesses afloat.

The Japanese banker says some banks are afraid of doing business with Yue Xiu. "From a credit point of view, we have to know what kind of business they're doing," he says, "and in Yue Xiu's case, they don't have a principal activity. We prefer companies with a good foundation and a good business record so that we can understand their experience and their management."

Yue Xiu's strategy now is to develop its essential business lines. The company wants large investments, particularly infrastructure projects such as the contract to build a US$25 million power plant in Guangdong province that it expects to sign soon with foreign investors.

General manager Guo also hopes to expand investment in trading and manufacturing, but to trim property holdings. And he wants to obtain additional trading rights from Canton.

While strengthening these business areas, Guo proposes to pare down risk exposure by lowering real-estate holdings to 20% — from about 40% currently — of the company's portfolio.

■ **Pamela Burdman**