

Overview of Panda History

Mark J. Tobkin
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In the late 1980's and early 1990's the Panda Group of companies made an initial investment of USD 250,000,000 in order to establish an Automotive Industrial City in Daya Bay, Huizhou City, Guangdong Province, China. About USD 160,000,000 was utilized within the P.R.C., and the balance was spent outside of China for feasibility studies, engineering, equipment purchases and Hong Kong/U.S.A. operations. This investment was one of the largest foreign equity investments in China at the time.

Automobile Production

In September 1988 Panda Motors Corp. (PMC) was registered in the state of Delaware, USA, and in December 1988 Panda selected Danshui Town, Huizhou City, Guangdong Province, P.R.C. for its auto plant site. Based on Panda's understanding of the P.R.C. government's desire for foreign investment in the automobile industry, Panda established a Wholly Foreign-Owned Enterprise (WFOE) in the P.R.C. for the purpose of creating an automobile manufacturing center in the Daya Bay area. Panda's application was approved by the Provincial government in March 1989.

Although Panda saw a tremendous domestic need for automobiles in China, Panda was told that its license would be conditioned upon 100% foreign capital, and 100% export of all products (double 100%). Panda did not believe that 100% export was viable in the long run, but was assured orally by some Chinese officials that if Panda agreed to the condition, then once Panda's foot was in the door, the ability to market domestically would be made available as well. Panda proceeded on this basis.

With local, provincial and national governments' support, Panda commissioned a feasibility study and assembled a team of experienced automobile professionals. Tooling equipment and technology were procured from around the world, including a 'stamping' plant and an 'engine line' from General Motors, in Fairfield, Ohio. Panda also purchased 2 power generation turbines, and entered into costly contractual agreements for the facility in China as well.

Simultaneously, Panda's engineering staff spent millions of USD's on product studies and vehicle engineering. Models and mock-ups of several possible products were painstakingly designed, and no expense was spared on the necessary engineering work. At the urging of the Chinese authorities who supported the project, Panda put itself on the line to develop this project quickly.

In the midst of its initial preparations, the unexpected tragedy of Tiananmen Square occurred. Although the tragic events of Tiananmen Square on June 4th, 1989 caused most foreign investors to withdraw from China, Panda continued to move forward with its project. With Panda's bold decision to continue, the Chinese national media capitalized on this and utilized it as an example to the rest of the world that China remained stable and committed to welcoming foreign investment.

Only a few weeks after the Tiananmen Square difficulties, on June 27th, Panda held its groundbreaking ceremony, and construction and earthwork began in September 1989. At the time, China's leadership (at all levels) welcomed Panda enthusiastically, not only because of the economic potential of the project, but also because Panda's decision to proceed with the project, demonstrated faith in China's future.

Soon thereafter, on December 29, 1989, Dr. [Bo Hi] Pak called me to join with him and become the Director of Administration in our headquarters offices in northern Virginia. Not long after that, in February 1990 then-Premier Li Peng visited the Panda factory, and Secretary-General Jiang Zemin visited the factory in June of the same year. When the basic structure was completed in early 1991, the assembly plant was the largest steel-structure factory building in China. It was at that time, in January 1991, that President (of the military) Yang ShangKun also visited the factory area.

Unfortunately, Panda underestimated both the world's reaction to the 1989 events, and the depth of the world's recession at the time. That recession caused an unprecedented slump in world auto sales, and a financial crisis among many of the world's great automobile companies. Consequently, Panda was severely hampered in its efforts to find multinational partners for the project, especially because of the 100% export condition. As events unfolded, it became clear to Panda's top management that many of the assumptions underlying its original feasibility study had become invalid. Panda realized that circumstances required it to change its original business plan.

In March 1991, Panda submitted a request to Premier Li Peng for a license to distribute 30% of its output in the domestic Chinese market. After much discussion and debate at high levels of the government, Panda came to understand that its request to sell a portion of its production to the domestic market had been rejected.

In the fall of 1991, Panda hired the internationally known investment-banking firm, NOMURA & Co., to assist Panda in its search for a strategic partner. Panda explained to the Central government that we had been told by Nomura, and other knowledgeable automotive experts, that without some domestic sales rights, no strategic partner would join in Panda's automotive project, considering the then existing economic environment. Panda sincerely explained these matters to its friends in the Central government.

As an alternative strategy, Panda decided to attempt to manufacture a specialty vehicle in China. Panda spent many months, and a great deal of financial resources in negotiations and feasibility studies with several internationally known vehicle manufacturers. The most promising project was developed with the Piaggio Company in Italy. Piaggio produced an excellent line of light utility vehicles. These were widely used throughout Europe, and exported to the world. After long negotiations with Piaggio, an extensive feasibility study was prepared.

The feasibility study concluded that this product could be economically produced in China, and exported to Italy and the rest of the world. Thus, although it would have been necessary to sell a small portion in the China market, the majority could be exported to other nations. Panda would have been the first company in history to export substantial numbers of vehicles from China. Regrettably, Panda's proposal to pursue this project was also rejected. To Panda, it seemed that there was no possibility that the Central government would ever give a favorable response to any proposal for reforming or restructuring the project.

Hope for Panda's future began to rise again in 1992. It was then that Deng Xiao Ping made his historic visit to southern China, generating a whirlwind of reform. Certain sources within the government hinted to Panda officials that the climate was changing, and the possibility existed for Panda to enter into a joint venture with a Chinese company. A plan was devised to assemble 2,000 – 5,000 CKD (Completely Knocked Down) light trucks in Panda's assembly plant. This project would actually not produce any profit for Panda because of the limited scale. Nevertheless, with the encouragement of the local authorities, Panda proceeded with further discussions and research on product and market. This plan rested, in part, on statements by local authorities that a portion of the production of the light trucks could be sold locally.

In May 1992, however, the then Vice Premier of the PRC, Zhou Jia Hua, visited Panda's assembly plant and declared that Panda would never be allowed to joint venture with local partners or sell its product in the local market. He also declared that Panda might be allowed, however, to use the facility – a state-of-the-art plant, designed for production of the most technologically advanced automobile products – for the manufacture of another product, such as *'food processing equipment'*. These comments were very disconcerting and discouraging for Dr. Pak, the Panda staff, as well as the local government officials.

Although Panda had no reason to believe that authorization by the Central government would be given to proceed, Panda began negotiations with the PRC's Ministry of Aeronautics and Space (MAS), and Second Auto Works (SAW) concerning joint ventures for automobile production at the factory site. Even if Panda was permitted to proceed, it was anticipated that Panda would be relegated to a position of minority partner with little, if any, prospect of recovering its investment, or realizing a return on its investment in the short run. These negotiations ceased by March 1993. Three months later, because I had been actively cultivating our relations with relevant government officials, Dr. Pak asked me to become the Director of Government Affairs.

Land Development

Despite the fact that the auto project had stalled, Panda's leadership continued to pursue its vision to stimulate the growth and economic development of the entire Daya Bay area by developing its landholdings. Working in cooperation with the local authorities, Panda retained the internationally famous architectural firm, Leo A. Daly Company.

In a USD one million study, the Leo A. Daly Co. devised a Master Plan for the entire Daya Bay area. When the plan was completed, Panda presented it unconditionally to the local and provincial governments for their use in developing the area. Panda was pleased that many parts of this plan were eventually incorporated into the local government's Master development scheme.

When the Panda project first began, Panda spent about USD 40,000,000 to 'lease' approx. 6,676,444 m² of land throughout the Daya Bay area. It was hoped that this land could now be used to help turn the 'dream' embodied in the master plan into a reality, and contribute to the stimulation of economic and industrial growth in the region.

Panda's investment included not only industrial land, but also land for the development of residential facilities, recreational/tourism uses, and commercial support services.

Panda's land leases were signed during 1988 – 1990 under a PRC law that prohibited outright sale of land to foreign companies. Consequently, the leases did not permit Panda to mortgage or transfer the land. After the PRC passed new land-use development regulations in 1990, which provided that foreign developers may transfer and/or sublease their land-use rights, Panda entered into discussions to revise its land 'leases' to obtain the rights that a land developer could obtain under the new regulations. However, the government refused to revise Panda's land leases.

In early 1992, Panda submitted a plan to develop 'Panda Garden City', a residential complex. This plan was explained in great detail to the local authorities, and was fully endorsed by them. However, after Vice Premier Zhou's visit to Panda's assembly plant in May 1992, subsequent discussions with the local government to develop the land became more difficult. Panda was told again, that the development of Panda's land could not take place until there was a vehicle being assembled in Panda's automotive plant. '*No auto, no land development*' was the Central government's position. Although an application to establish a land development company had been approved, a senior Chinese official orally advised Panda that it would not be permitted to profit from its landholdings until the automobile issue was resolved.

In any country, when investors decide to enter a market with a product, they make certain assumptions, and take certain calculated risks. However, in many countries, including most of those belonging to the then 'General Agreement on Trade & Tariffs (GATT)', if the investor's assumptions prove to be wrong, then so long as such investor's assets were greater than their liabilities, they could attempt to re-structure their business. Apparently, at that time, this was not possible in China.

When Panda came to Daya Bay, the area was virtually cattle-grazing land. As Panda built its factory, the surrounding area began to enjoy tremendous growth. Panda's contribution to this growth had been repeatedly confirmed by government officials, and reported extensively in the media. However, Panda had yet to realize even a single dime from its investment.

In American history, the pioneer spirit played an important role. The person or company that pioneers the way for others, oftentimes takes the greatest risks, and pays the highest price. Panda invested in China when the climate was adverse and the laws still underdeveloped, but instead of enjoying the rewards of being first, Panda did not even enjoy the status of those who came later.

Panda tried repeatedly, as can be well documented by notes, reports, and copies of reports submitted to various government agencies, to resolve its situation. Panda was not in debt to any Chinese business or entity. Panda made no greater mistake than starting a business that was perhaps too optimistic, and wanted nothing more than to re-structure its business on a smaller scale. Panda was denied the opportunity to change its land-use plans in response to changing economic conditions.

Panda found itself in a classic '*Catch 22*' situation – Panda was thwarted in its attempts to find a viable way to produce an automobile, yet, without automobile production, was denied approval to develop its land. Realizing this situation, Panda applied for a land development license. The license was approved, but was not issued. Certain Chinese authorities hinted that they would either expropriate the land, or, perhaps 'repurchase' it with devalued Reminbi (Chinese currency) at the purchase price paid by Panda (rather than the market price), on the grounds that the land had not been developed within the time period specified in the land lease contracts.

One of the main complaints of the Chinese authorities was that the land 'leased' by Panda had increased in value. When Panda invested in the land, following the events of Tiananmen Square, there was no guarantee that the value of the land would appreciate. It is the essence of the market that an investor taking a great risk be permitted to enjoy the reward of an investment that is successful. Clearly, the Chinese government would not have made up Panda's losses if the land had depreciated in value. Panda was willing to accommodate any and all ideas for a fair resolution to its dilemma.

As a result of all of the above, Panda's strategy was: a.) Seek a Chinese or foreign joint venture partner to make use of our factory building for car production, and b.) Seek to convince the government to legally de-link our land from our auto project so that we could benefit from the significant increase in the land's value.

In order to assist Panda with this strategy, Panda's Chairman (Dr. Bo Hi Pak) invited General Alexander Haig (former U.S. Secretary of State) to work with us in his capacity as Panda's senior advisor. Due to his unique contributions to Sino-U.S. relations, General Haig was one of the American leaders most respected by the Chinese leadership. He had met regularly with China's top leaders, including President Jiang Zemin, Premier Li Peng, Li Lanqing, and others. As a result of his intervention on Panda's behalf, as well as Dr. Pak's many diplomatic efforts, the official attitude toward Panda began to change in Beijing, and in June 1994, the State Planning Commission gave General Haig its new directions for Panda. After considerable study, the SPC concluded:

- 1) 'Because no foreign companies would be given licenses to sell cars in China's domestic market

before the end of the century, Panda would not be allowed to joint venture its factory for auto assembly.’ (This decision was not necessarily discrimination against Panda, as even Ford, G.M., Mercedes Benz, and others, were also turned away.)

2) Panda would be allowed to develop its landholdings in accordance with Chinese law, subject to agreement with the local government.

The Chinese Central Government’s decision in the Spring of 1994, to ‘de-link’ Panda’s manufacturing projects from its land development projects was the breakthrough Panda needed to move forward to achieve its original purpose for entering China, while earning a reasonable return on its investor’s capital).

Following the Central Government’s decision, Panda entered into 10 months of intensive negotiations with the local Chinese government on the terms and conditions that were to apply to its new projects. On 12 April 1995, in an official ceremony in the city of Huizhou, attended by all of the local Chinese leadership, a ‘General Agreement’ was signed by Panda’s Chairman, and the head of the Daya Bay Economic and Technological Development Zone, re-structuring Panda’s assets and business activities.

The Agreement provided, among other things, that:

- 1) Panda had the full right to develop its landholdings on the same terms as any Chinese real estate property developer, and Panda may sell or lease its land to others (*on condition*);
- 2) Panda’s scope of permissible business activity now included all types of real estate development, tourist and resort development, and manufacturing. Previously, we were limited to automotive manufacturing for export.
- 3) Any of the activities Panda was allowed to pursue could be undertaken with third party investors in joint venture form. Panda could contribute land in its raw, undeveloped state as its capital contribution, in exchange for equity in a joint venture.
- 4) Panda’s rights to its land would be for 50-70 years, depending upon the zoned location of each land tract.
- 5) Panda could now develop its projects systematically, in response to actual market conditions, over a reasonable long period of time.

One condition to the Agreement was that Panda needed to return nearly 1/3 of its landholdings (approx. 2,010,000 m²) to the government for compensation for the re-structuring of its assets, land-use changes, as well as for other administrative fees and taxes.

In 1996 the Government of Guangdong Province and the Provincial Committee on Foreign Economic Trade and Investment gave its approval to Panda to become a real estate company, and issued its new Business License. Panda’s name was changed from ‘Panda Motors (China) Co.’ (PMCC), to ‘Panda Property Development (China) Co., Ltd. (PPDCC). With the signing of the ‘General Agreement’ and the issuance of the new business license, Panda became one of the largest wholly foreign-owned landholders in the PRC. In September 1996 Dr. Pak asked me to become a Vice-President of the newly-formed company and to generally oversee its operations. Subsequently, on 20 March 1997, a ‘Master Land Grant Contract for the grant of the State-Owned Land-Use Rights’ was signed by Panda, the Dayawan Land Bureau, and the Huiyang Municipal Land Bureau.

From 1997–1999 Panda finalized the re-structuring procedures of PPDCC, and began to make plans for its future development work. Unfortunately, Panda could not simply sell its landholdings in order to cash out. Like many developing countries, especially those of East Asia, raw land could not be purchased and sold by foreigners – it had to be developed before it could be sold. In that sense, we had no choice: Panda had to successfully develop its land, or it would lose its entire investment.

However, our Agreement with the Chinese government gave us great flexibility regarding our development obligations. We could develop single projects (such as a hotel...), or we could develop infrastructure (such as roads and sewers...), then sell the partially developed land to end-users. However, before we could realize the value of the land, property development activities had to occur. Needless to say, this required an enormous amount of capital. It was in the midst of the re-structuring of the company that Dr. Pak asked me to remain as the Vice-President, but to also become the hands-on General Manager of the company, responsible for all of its daily operations

Prior to late 1998, PPDCC had received monthly support for its operational expenses from the Panda headquarters. As such, Panda was never in need of any additional financial assistance of any kind for this purpose. However, from late 1998 onwards, we became totally independent (financially), and on our own.

At the time, our financial situation was so severe that at one point we even had to sell one of our vehicles in order to make salary payments to our staff. The real situation was that Panda had to carry on with its operations and develop its land assets, but we had no funds with which to do it.

Until 1999, no property development had taken place in Panda, as we had previously concentrated all of our efforts on trying to initiate viable automotive projects, doing countless feasibility studies and research, re-structuring the company, maintaining good Government Relations, as well as doing administrative and property/land care-taking work. At the time, the property market was very immature in the local area, and the real estate industry in China was going through many difficulties, partially because the austerity program (initiated by then-Premier Zhu Rongji in 1993) was still in effect. In general, little or no development was going on in the Daya Bay area as a whole, although development in the surrounding areas of Guangzhou, Dongguan, Shenzhen, etc. was somewhat better.

As time went by, Panda came under increasing pressure from the government and local farmers to begin developing its land (ex. the farmers consistently complained to the government that Panda had acquired the land at very preferential prices, but were not developing it, therefore they wanted the government to repossess the land and return it back to them). This development pressure continued, unabated. However, owing to our persistent efforts and good government relations in the past, we were able to continue to move forward.

Even so, new and younger government personnel were beginning to take office in the local area. These people did not know the full history of Panda's presence in the area, and had little (if any) 'emotional' connection to Panda. Thus, sometimes they created difficulties because of not understanding Panda's complicated history. As such, a lot of work was necessary in this area; we could not just rely on our 'old friends'.

Actually, we had made many attempts to find a partner to cooperate with us in the late 90's; however, we could find no one. One of the main reasons for this was that no one was really sure whether or not the Shell Oil Project was going to move forward, and no one wanted to falsely speculate, as had been done in the late 80's and early 90's, when many developers invested and subsequently lost huge sums of money.

We also made many attempts to obtain bank loans in order that we might begin our development work. We approached no less than 7-8 banks in the local area, including Huizhou as well as in Shenzhen, Guangzhou, Shanghai, and Beijing. Although each of them were eager to work with Panda, all of them cited our lack of backing from our 'parent' company(s), as well as our lack of experience in the real estate development industry, as the main reasons that they could not grant us a loan, even though we were willing to collateralize our land assets. Another major factor was that we lacked existing revenue-generating projects with which to repay the loan.

After many discussions with the government, they eventually agreed to allow us to transfer (sell) several pieces of land in order to generate capital for our daily operations, and begin with our actual land development. However, they were very firm with us that these funds had to be totally utilized to develop our remaining undeveloped properties, or the undeveloped land would be subject to repossession by the government.

It was in June 1999 that we were approached by a local company by the name of XinHe that wanted to 'purchase' a piece of land (23,337 m²) located along Renmin Road, in Huiyang City. Soon thereafter, Mr. Zhu Zijun (a local entrepreneur) approached Panda to 'purchase' 95,645 m² of land located adjacent to the Panda Headquarters building. The government agreed, but consistently reminded us of our obligations under the '*General Agreement*'.

With the transfer of these smaller parcels of land, Panda was able to continue with its operations, and eventually inject part of the revenues into the development of 'Panda Technological and Industrial Park' (PTIP), and later, into 'Panda Emerald Garden' (PEG). (Note: Panda's remaining landholdings at the time were over 4.5 million m²).

In June 2000, Mr. Zhu Zijun once again, together with Mr. Zhang TianCai (General Manager of the government Day Bay Group companies) approached Panda about the transfer of 403,701 m² of land located in the northern part of PTIP. Mr. Zhu offered to commence with the construction of PTIP's infrastructure in lieu of cash payment (for the above-mentioned land) to Panda. The plan was clearly communicated and discussed with Dr. Pak, who agreed, in order that we could begin our land development work.

As Mr. Zhu's company (ZhongRun) had joined hands with another large, well-known construction company (China State Overseas Construction Co.; 4th Bureau), we entered into negotiations pertaining to the actual construction contract, and the transfer of the land. The area for development was the land inclusive of W. #2 Road, and Panda's land to the south, surrounding the factory (approx. 800,000 m²).

Upon completion of the Master Plan and Construction design of PTIP (which was done by the 'China Municipal Northeast Design Institute'), as well as the completion of Contract negotiations, commencement with the earthwork began in August 2000. At that particular time, no construction company was willing to do the above (i.e. construction work in lieu of payment for land). This meant that Mr. Zhu's company had to use their own capital (albeit owed to Panda) to initiate Panda's project. The infrastructure (6-throughs + 1 leveling) was constructed to near international standards, and stood as a model for infrastructure development in southern Guangdong Province at the time.

Upon completion of the project in late 2001, PTIP was highly praised by the Provincial and Local government officials for its high standards, and also because it was one of the first industrial parks in the area to have all of its infrastructure placed underground. The Huizhou Planning and Construction Committee held a meeting with all relevant Bureau's and Departments in attendance, and declared that PTIP should be used as an example for all future industrial parks to be built in the greater Huizhou City area. Soon thereafter, although many companies wished to 'purchase' the land surrounding the factory, Panda never agreed, as we knew that *how* the factory would ultimately be used, should determine (in part), the usage of the land surrounding it.

It was in December 2000 that Panda was approached by the local Daya Bay Administrative Committee (local government) with a problem that they were not able to resolve by themselves. They needed to find a large tract of land upon which they could re-locate all the peasant farmers then occupying land on the Shell Oil site. They needed to re-settle nearly 5,000 families; however, the government had no such large tract of land in the area. Panda was the only company with such large undisputed land assets.

They came to Panda with this great dilemma, proposing that Panda consider transferring the industrial land located north of West #2 Rd., back to the government for the stated purpose. After long consideration by Dr. Pak, Panda management, and government discussions and negotiations, Panda finally agreed to this transfer, in an effort to assist the government in their time of great need, as well as to help resolve our own tight financial situation. (Actually, we had had a long history of assisting the government and local community, and therefore, our relations with them were very strong...).

Eventually, in June 2001, Panda agreed to transfer 374,327 m² back to the government. The revenues generated from this transfer were used for the completion of the PTIP infrastructure, the initial 'seed money' for the eventual development of the 'Panda Emerald Garden' (residential) project, as well as the development of our beach landholdings, 'Panda Golden Beach', and operational expenses up til early 2004.

Already, back in 2000, Panda had been in discussions with Shell Oil management personnel pertaining to their eventual accommodation needs. At that time, we were considering to construct 'high-end' villas and condominiums out at Panda Golden Beach. They gave us their requirements, and we provided them with two proposals. (A good number of other companies also participated in the tendering). They considered our Proposals very carefully, and we were 'shortlisted' as one of those that they were considering. However, the final selection eventually went to the '*Palm Island Golf Club Resort*'.

The determining factors which 'tipped' the scale in their favor were based mainly on two (of many) key issues. 1.) Palm Island was built by a seasoned, reputable, and well-known property development company (i.e. The '*New World Group*' from Hong Kong) and 2.) The '*New World Group*' was a financially stable, listed company. As such, although they really liked Panda's proposals and considered locations, we could not compete in terms of the above-two mentioned considerations. Nonetheless, we maintained high-level contacts with key Shell management personnel about other future ways of possible cooperation.

Just prior to our Shell tendering, Mr. Zhu Zijun and Mr. Zhang TianCai once again approached Panda with a Proposal to *jointly* develop a residential/commercial area occupying 830,000 m², adjacent to the factory building. The development of the entire Project would be divided into 4-5 Phases, and would cater to the mid to high-end markets, composed mostly of multi-nationals, as well as domestic residents. Its main features would center upon a 60,000 m² man-made lake, as well as well-planned landscaped area occupying 56% of the area. The development was to be composed of Western-style villas and condominiums, as well as low, medium, and high-rise apartment accommodations. They were to be decorated to high standards with high quality neutral decoration, making the final decoration and furniture selection easy. Also, Club Houses, support facilities, and commercial areas would be well integrated into the development.

Because of the previous smooth working relations with Mr. Zhu in the development of PTIP, Panda management thoroughly discussed Mr. Zhu's proposal with Dr. Pak (who agreed), and Panda eventually established a Joint Venture company called '*Panda JinRun Real Estate Development Co.*'. I became the chairman of the Panda JinRun Company.

The JV consisted of Party A (Panda) owning 60% Shares, and Party B (Mr. Zhu's company and Mr.

Zhang's government companies) jointly owning 40% Shares. Its first project eventually became known as the 'Panda Emerald Garden' project. This was one of the two Proposals that we had submitted in the tendering with Shell.

With the commencement of the Shell Project, and based on the original feasibility study for 'Panda Emerald Garden', we felt that the demand for high standard accommodations was great. After several months of planning and designing, working with no less than 3-4 companies, as well as rather difficult contractual negotiations, we held the Groundbreaking Ceremony of 'Panda Emerald Garden' on December 16, 2001.

Construction negotiations continued for another few months and the Phase 1a earthwork began from August 2002. The 'Panda Emerald Garden' project was hailed by the Daya Bay Administrative Committee as one of the top 10 Projects in Daya Bay, being fully supported by the Huizhou Municipal government.

In concert with this, in November 2002 Panda began its preliminary development of its beach landholdings, later called 'Panda Golden Beach'. The total landholdings area was 1.65 km²; however, the initial area being developed was 200,000 m². A lot of earthwork had been completed; basic showers and kiosks were built, and preliminary landscaping was done. We had widened the beach line from 20 meters, to 60 meters, thus creating one of the most beautiful beaches in southern China.

Additionally, it was during this time that we also had numerous meetings and discussions with QingHua University in Beijing (China's Harvard University), which had been very interested in establishing an Elementary school, Middle school, and High school within our 'Panda Emerald Garden' development. This would be an incredible asset, which would have added great prestige to our Project.

Originally, Panda JinRun was to invest capital into this Project (approx. USD 9.6 million), as well as inject 100,000 m² of land in the southern part of our Residential development area. The local government 'Group companies' were going to invest approx. 4.8 million, and QingHua University was to be responsible for the campus design, curriculum, and subject matter, in addition to the day-to-day operations.

Although all parties concerned were very pro-active in trying to make this happen, after in-depth discussions, as well as further feasibility studies, Panda JinRun decided to modify its strategy, and inject land only. We would work with other third-Party investors to inject the required funding for the school. In this way Panda could concentrate on its real estate development, provide preferential enrollment and reduced school tuition fees for those tenants who resided in Panda Emerald Garden, as well as remain as a shareholder in the school.

While we were discussing cooperation with QingHua University, we were also having parallel discussions with the Shenzhen City government, together with a Joint Venture company headed by the former Security Chief of Deng Xiao Ping. They were very interested in financing our 'School Project', and having QingHua (or another reputable school) manage the school. This scenario fit perfectly with our plans.

Leadership change

Although the Contract(s) with QingHua University, the Shenzhen government, and the Joint Venture company had already been drawn-up and were ready to be signed; they weren't. To make a long story short, this was because on March 1, 2004 Dr. Bo Hi Pak was replaced by Rev. Chung Hwan Kwak as the chairman of Panda. With this changeover, all senior management staffs were replaced.

Unfortunately, many of the initiatives that were already 'in the pipeline' were not carried forward by the new management team, and there was little or no further development for the next two years. Relations with the government deteriorated rapidly. Subsequently, True Father directed another major changeover in the company leadership, and Mrs. Park, Kum Suk (Mrs. Piao) was assigned as the new chairman of the company. As of the writing of this report, I am not aware of the current circumstances and development status of the company.

Objectively speaking, Panda's quiet development up to the time of the changeover in 2004 had been quite extraordinary, despite its turbulent past and the difficulties it encountered along the way. Our relations with the local and provincial governments, as well as the society in general, were quite exemplary and noteworthy. However, the attitude from the rather conservative ranks of the government in Beijing at the time didn't necessarily share the same sentiments. This eventually led to some difficulties.

Nonetheless, the Panda project served as a very important 'stepping stone' for True Parents to meet North Korean President Kim, Il Sung. Perhaps this is one of the greatest contributions that Panda made to the providence.