



Surveying

news



CHAN Hak

Message from the President

The exploding development in Hong Kong in the past few decades can be vividly testified by the huge volume of buildings that have sprung up to accommodate the millions of population, to support the booming commerce and business and high tech industry, and to serve the growing community needs. Buildings are getting taller, more environmentally friendly and more intelligent and the very precious land resources have to be further exploited. The surveying professionals have certainly been playing an important role in the development process. But we should not feel complacent. There is a lot more we can contribute to make Hong Kong a better place to live in, to work and to enjoy.

In order to advance our profession further and to make greater contribution, we have to be fully aware of what is happening around us and better still to be vigilant of forthcoming events that concern directly or indirectly the surveying profession. Being a well-established and recognized professional body we are often approached by policy makers, legislators, other professional bodies and interested parties for advice and comments and even assistance. We are not only providing professional services but also fulfilling our social responsibilities and commitment.

Indeed many of our members have volunteered to contribute in various ways, such as attending committee meetings, scrutinizing documents, organizing conferences, local and overseas, and delivering talks and even participating in charity activities. Many hands make light work. Likewise, there is also heavy demand for members' support to run the internal Institute's business, such as, membership, education, IT, international affairs, discipline, and many ad hoc meetings. Whilst the divisional councils for the respective disciplines are handling the issues specific to their own domain, there are issues that span across several disciplines. In that regard, concerted effort amongst divisions is required to deal with such issues and a horizontal integration of all the disciplines is called for. A better understanding of and learning from each other's work will stand us a good stead in providing quality services and developing our career with a wider perspective of surveying.

I look forward to and indeed, count on your continued participation and unrelenting support in the running of the business of the Institute and in consolidating the strength of the profession for the greater benefit of the community of Hong Kong.

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SURVEYING is the newsletter of the HKIS. It is distributed to members, students and friends of the surveying profession free of charge. Anyone wishing to receive a copy may contact the office of the Institute.

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EDITORIAL CONTRIBUTIONS

Surveying encourages article queries and submissions. Article submissions should include both hard (printed) copy and a diskette in Word format. Contributions should reach the Hon. Editor at the office of the Institute before the 10th of each month.

INFORMATION & CONTENTS

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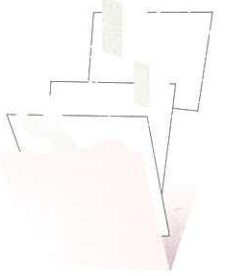
All advertisements and small ads are welcome. SURVEYING is reaching over 5,700 readers. For detailed information and advertising rates, please contact Ms Margaret Yung of the Secretariat office at 2526 3679.



The Hong Kong Institute of Surveyors
香港測量師學會

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<http://www.hkis.org.hk>

Office Hours:
Monday to Thursday 9:00am - 5:30pm
Friday 9:00am - 5:00pm
Saturday 9:30am - 12:30pm



Building Surveying Division

Raymond Chan, Chairman

In the last few years, Hong Kong has experienced an economic downturn. Most of us suffer while working harder in order to survive. I have received from one of our members a letter (name withheld) indicating the danger he can foresee in the development of our profession.

The Editor
"Surveying"
HKIS

2 March 2002

Dear Sir

In his February message, carried on the cover, the President writes optimistically of future opportunities for surveyors; overleaf Raymond Chan touches on outsourced consultancy by ASD. Doubtless there are opportunities that may be worth our participation, but do they justify committing commercial suicide?

In January, my small and struggling firm received an invitation from ASD to quote for a condition inspection of the Yaumatei multi-storey carpark building. Having heard horror stories of the low level of fees quoted by some for this type of work, we hesitated to participate. Nevertheless, we trotted over to the building, walked up and down the four urine-soaked and turf-decorated staircases, peeped in the two top floors of Government offices, cast an eye over the many carpark floors with their resident community of what might be called off-street sleepers, endured the stink of the ground floor toilets, and put together a proposal.

In discussion with my team, including a 10-year RPS and a senior RSE, both as specified by the invitation to quote, we decided to be really competitive on fee, and to try as hard as we could to convince the client of our "endeavour to provide quality work" as the President put it. It takes a few hours to put a quality proposal together, but we thought it was worth the investment. Our proposed fee came down and down until we thought we could at least survive, while having a realistic chance.

Fat chance! Yesterday we received a letter from ASD informing us that the job had been awarded to XXX Consultants Ltd for the derisory sum of \$9,800. This does nobody, except possibly ASD, any good at all, and if fees of this level become the norm we shall soon see not an office on the 8th floor of Jardine House, but a gravestone inscribed Hong Kong Surveying Profession, RIP.

Yours faithfully

XXXXX
Authorized Person, Registered Professional Surveyor (BS)
Director

Copy: Raymond Chan, BSD Chairman


CONSTRUCTION INDUSTRY SAFETY TRAINING CERTIFICATE ('GREEN CARD')

Corporate members of The Hong Kong Institute of Surveyors (HKIS) are reminded that they can apply for the Construction Industry Safety Training Certificate through HKIS.

Section 6BA of the Factories and Industrial Undertakings Ordinance (FIUO), Cap. 59, requires every person carrying out construction work or container handling to undergo mandatory basic safety training (MBST) and obtain a valid certificate (generally known as 'Green Card'). The Labour Department has informed HKIS that:

"The primary consideration on the requirement of a 'Green Card' lies on whether that person is carrying out construction work or not. We have to stress it is not the title but the nature of work that counts. If representatives of the owner of developer are not involved in carrying out any kind of construction work or preparation for construction work, those persons are not required to hold 'Green Cards'. If they are only engaged in reporting on work progress and no construction work is carried out, there is no need for them to undergo MBST. The same principle applies to consultants attending site meetings but the nature of carrying out supervisory work must be judged on whether 'construction work' is involved. In the last case, consultant surveyors conducting site monitoring or testing of material require MBST."

HKIS has been authorised by the Labour Department to issue the relevant certificate for the construction industry under section 6BA(4) of FIUO, which will satisfy the safety-training requirement under section 6BA of the Ordinance.

As a corporate member, you may apply for the issue of the certificate from the HKIS office. There is an administration charge of HK\$50 for the application of the certificate. The application forms are processed at the end of each month and are valid for 3 years from the date of issue from the beginning of each month. If you require an application form please contact the office at 2526 3679 for a copy. 

I also enclose below a response from ASD on this matter.


THE HONG KONG INSTITUTE OF SURVEYORS
建築師學會
Director of Architectural Services
RECEIVED
27 MAR 2002

Our Ref: ASD 81/92300/CON/GEN

27 March 2002

The Chairman
Building Surveying Division
The Hong Kong Institute of Surveyors
Suite 801, 8/F, Jardine House
1 Connaught Place
Central
Hong Kong
(Attn: Mr Raymond Chan)

Dear Mr Chan,

Publication in "Surveying" Magazine

Thank you for your letter dated 20.3.2002 attached with a copy of a letter from one of your members.

The consultancy for the Condition Survey of Yaumatei Multi-storey Car Park Building was tendered in accordance with the prevailing Government regulations and procedures. This contract was awarded to the lowest qualified tenderer.

The price quoted by the successful tenderer is highly competitive. However, there is nothing to suggest that the tenderer, being a professional firm and a member of your reputable Institute, would compromise their quality with the competitive price.

Yours faithfully,

(S H Pau)

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35/F., Queensway Government Offices, 56 Queensway, Hong Kong Tel: (852) 2867 3601 Fax: (852) 2812 7311

VISIT TO OPL AND PERMASTEELISA IN DONGGUANG

Reported by Kenneth Yun, Hon. Secretary

On 9 March 2002, 44 members joined the group visit to the manufacturing plant of OPL in Shatian, Houjie, Dongguang, Guangdong and Permasteelisa at Zhungtang, Dongguang, Guangdong. The group comprised of Student, Associate and Fellow Members who came from the Building Surveying, Quantity Surveying and General Practice



Divisions of the Institute and structural engineers from the Buildings Department. They gathered at Middle Road, Tsimshatsui. After the coach journey, the group arrived at the manufacturing plant of OPL at Shatian at 11.30 a.m.

The management of the company welcomed the group. The background of the company and manufacturing process was introduced. OPL is a joint venture between the Sun Hung Kai Group and Gammon Construction. The group was then led through the fabrication yard. In addition to prefabricated building products like staircase, floor slab, partitions and facade modules with external wall tiles finishes for projects like public housing and Taikoo Valley, post-tensioned beam for civil projects like extension of Eastern Corridor were also shown. Samples of modular products for domestic flats were also observed and they have been used in the Integer Project at Tamar Site. In addition to reinforced concrete products, there was also a fabrication yard for structural steel in No. 1 Peking Road, Eastern Corridor and components of construction plant. Computer controlled cutting and welding plant was shown. Most of the products can be designed and manufactured within the company. All finished or semi-finished products are transported to Hong Kong by sea freight and land transport.

After a delicious lunch, we continued our tour to Permasteelisa at Zhungtang. Permasteelisa is an international company specialising in design and fabrication of curtain wall components. The group was led through the design office, quality control division, manufacturing control division and the manufacturing plant. Glass and extruded

aluminum sections from different origin were assembled to form prefabricated components ready for installation. At present, they are busy producing components for Two International Finance Centre and No.1 Peking Road. The Project Manager of No. 1 Peking Road, Mr. Kenneth Chan, briefed us about the rationale in designing the curtain wall facade and explained about features like sunshade and openable access panels. The group returned to Hong Kong with satisfaction. ■

THE NEW WINDOW - CHINA AFTER WTO ACCESSION

HOW CAN HONG KONG BE PART OF IT?

(Presented by Mr. Ivan Kwong Woon, KO, Director, Hong Kong Policy Research Institute Ltd., in a CPD Event on 12 April 2002, organised by the Building Surveying Division)

Tonight, I am delighted to be invited here to share with you my views on the window of opportunities that China's accession to WTO has offered to us. What I will do in the next few minutes is first to share with you my interpretations of what WTO accession means to China. Then I will offer my own observations of changes I experienced in doing business in China in the past ten years. I will quickly go through with you the WTO commitments of China for the real estate related industry. In the last part of my speech, I will try to tell you how typical Hong Kong professionals like you can gear yourselves up to the fast changing business and cultural environment in China.

As you all know, China started its open door policy since late-70s. In the past twenty years, the mainland has turned from a communist planned economy to a mixed market economy or in some way more of a capitalist economy. During this period, they have migrated from being quite ignorant about the outside business world to a position where they are now fully aware of the risks of dealing with international players and are able to manage a controlled growth. I would like to describe the past twenty years as the learning period. In flying, it is like rolling to the runway, testing the instruments and powering in the throttle to make ready for the taking off. With the accession to WTO, China is entering into the taking-off stage. Obviously, China will face a



lot of economic and political risks brought about by the WTO game. One may then wonder why the Chinese leaders still want to run the risks and push ahead with WTO. My answer is that after twenty years of market reform and attracting foreign direct investment, it will be difficult to keep the organic growth without major economic breakthrough. They cannot rely on what they have been doing to live up to the expectation of the people and enterprises in China.

In China, the non-public sector has expanded from a negligible percentage in the past to over 30% in total GDP now. The Chinese Government has to find ways to let the non-public sector, especially the private sector, to continue its high growth rate. Nowadays, the white collars in major cities in the mainland generally are earning a level of income, which is comparable to ours in the early 80's, if not more. They would expect to have strong income growth for the next ten or fifteen years. China needs to find ways for their income growth to sustain. The accession to WTO offers answers to both. China is determined to use outside investors, personnel and institutions to enable China to further lift itself to another level of economical and social development. China is well-aware of the fact that it has to face a lot of economic, cultural or even political impacts brought by foreign investment and inflow of people, know-how, market rules and practices after WTO accession. In short, these are the change agents, the catalysts that China needs to take them to the next stage of development.

With such backdrop, I hope all of you would look at the China market at a new angle. Before I started the real estate finance business that I am now running, I used to do property development in Beijing and Hong Kong since the late 80's until two years ago and I have flown to Beijing over 400 times. So, I think I should be qualified to share with you some of my understandings about the changes of the China market. I would like to highlight the following two changes that are relevant to tonight's topic. The first trend is that China looks for changes. In the 80's and early 90's, we noticed that government officials, bankers and institutions in the mainland tended to be very conservative and not receptive to new things and things from outside. Being conservative and sticking to old ways was the norm for survival in the past. Now, it is different. They took the initiatives to look for changes and new ways of doing things. You would be surprised to find out how informative and updated the official web sites of the Central government and the municipal governments are when you visit them. You can hardly imagine that the President of one of the state-owned banks even distributed to each of his managerial staff one copy of "Who Moved My Cheese" and make it mandatory reading. The open discussions about amendment to the Constitution to further protect private property rights, the prominent announcement and the subsequent publication of the result of the study in the change of social classes, the open discussions of the negative impacts on various industries after WTO are a few of the very many good examples of how the Chinese government has changed to bring in changes and manage changes. These are almost unimaginable back in the early 90's, not to mention the speech given by the last Governor of Hong Kong, Mr. Chris Patten, in the Central Party School a few days ago.

The norm for survival in China these days is to state innovative and migrate to international standards.

The second trend is the involvement of overseas-educated Mainland Chinese, overseas Chinese professionals and Hong Kong professionals in the government, state-owned enterprises and private enterprises. You may still remember the call from Premier Zhu Rong Ji and the governor of the Central Bank last year for Hong Kong financial professionals to work in Chinese banks or even the Central Bank. You may wonder when they will call for Hong Kong surveyors. There is an increasing number of US-educated or Wall Street-trained mainland Chinese going back to China to take up important positions in government, banks, professional firms and other sectors. You would

not be too surprised to find out that they understand both the western economy as well as the local market and have strong connections and most of them speak better English than we do. This import of talents helps facilitate the changes and allow them to be more receptive to new ideas and practices from outside. Bigger and faster changes will take place in the future when these people become the real decision-makers in the whole process. You may want to think about whether you would like to be part of that process too.

With the accession to WTO, what we are seeing is that the Chinese government is changing from accepting investment funding and know-how in the past twenty years to now accepting rules, standards, practices and even talents from outside. That is why I believe there is new window of opportunities for Hong Kong professionals and professional firms.

With regards to the opportunities provided to real estate industry, you can have a quick understanding on the commitments made by the Chinese government by referring to the Schedule of Specific Commitments on Services in Part II of the Report of The Working Party on The Accession of China. First, there is no specific commitment description for surveying in the whole schedule. However, for Professional Services under Specific Commitments there are descriptions of commitment for architectural services, engineering services, integrated engineering services and urban planning services (CPC 8671-8674). Real estate services are listed separately (CPC 822). Another major listing is construction and related engineering services (CPC 511-518). All these commitments allow joint venture to be set up with relevant local entities and accept foreign-owned majority. Except for real estate services, which only allow joint venture, wholly foreign-owned enterprises will be allowed to be set up within three to five years. One very good news for professionals is that all these commitments have made clear that presence of natural persons would be allowed and unbound. You must also be aware that the SAR Government is in consultation with the Central Government on the Closer Economic Partnership Arrangement (CEPA) to try to gain an earlier opening, wider opening of certain sectors under the WTO framework for Hong Kong companies. Whether we can make some more advancement in addition to these Specific Commitments, I am afraid we will have to wait and see.

Lastly, I would like to share with you the common syndromes or paradox that most Hong Kong expatriates have when they are doing China business. The first symptom is to speak modified Cantonese as

Putonghua. My advice is to polish your Putonghua before you go. It is no more acceptable to speak lousy Putonghua and still think that you are popular. Now, all of your Chinese counterparts would expect you to speak good Putonghua, if not fluent. The second paradox is to look at China from the channel vision of Hong Kong. If you still think that Hong Kong equates international standards and China should definitely learn from Hong Kong, then you will find yourself very wrong. Be open and communicate more with the locals to get to know their thinking, their topics, their rules and even their norms. The third, and probably the most common symptom is that Hong Kong people always rush back to Hong Kong right after their work is finished. Remember, the more time you spend in China, the more you know about the market and

their game. Don't always stay with your Hong Kong friends after work, stay with your local colleagues, partners, clients and friends. Finally, don't try to understand China through the mass media in Hong Kong. If possible, watch their TV, read their newspapers and magazines. I can assure you that they have better TV programs than our two popular channels. There are even better business magazines and business newspapers than the local publications in Hong Kong.

Let me end my speech by using the analogy from the book of "Who Moved My Cheese". Don't cry over the cheese moved away from Station S, look for Station N, an even bigger piece of cheese is over there waiting for you to explore. **S**

News from the Divisions

GENERAL PRACTICE DIVISION

Alexander T. W. Lam, Chairman

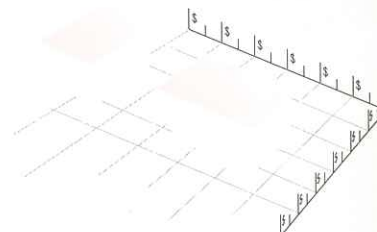
CPD EVENTS

The two CPD events in April were all oversubscribed. With the great effort from Mr. Wilson Siu, your CPD committee chairman and his team members, more attractive events will be organized. To avoid rejection due to late applications, members should reply to HKIS as soon as you receive the notice in respect of each event.

Certainly, the highlight of the recent events will be the talk - "Building a World Class City in Hong Kong" to be delivered by Mr. Bosco Fung, Director of Planning Department on 14 June 2002 in Rooms 404-406 of the Hong Kong Convention and Exhibition Centre.

PROPERTY AND FACILITY MANAGEMENT

An increasing number of our members are now practicing in the field of property management, which is one of the areas the Institute is always promoting in the industry as well as to the society at large. Council member, Mr. Michael Price, was recently appointed by the President as chairman of the Property and Facility Management Committee. We believe that with the leadership of Michael and his team, more strategic issues, training and policy formulation in the property management field will be addressed. Should any members have any ideas or suggestions, you are most welcome to send it to the GP Division through the e-mail address of the Institute.



APC GUIDELINES UNDER REVIEW

The APC, Education and Membership Panel are reviewing a number of issues. One issue that is most imminent is to look for a solution to assist those surveying graduates who are employed but without supervision by GP surveyors in the same organisation. Other areas are also being looked at with a view to improve the overall mechanism of APC. Mr. Rock Tsang, your panel convenor, and his team together with representatives from the JO will organise a CPD event when the APC guidelines have been revised.

ISSUES FROM THE GOVERNMENT AND LOCAL AFFAIRS PANEL

To increase our voice in the society, Mr. C.K. Lau, the panel convenor and his panel members are planning to conduct more research on local affairs. Certainly, the manpower involved will be heavy and resources limited, therefore, your voluntary support is a must for success. If you have suggestions of study topics in the interest of GP members or the professional development in Hong Kong or PRC, please send them to CK who would be pleased to talk to you. You may contact CK via chunkong.lau@ap.joneslanglasalle.com

URA'S REQUEST OF VALUATION FIRMS LIST

The URA approached HKIS in the middle of March to request for a list of valuation firms. Discussions on a standardised report format and reimbursement of valuation report fees were made. A separate letter has been issued to each GP surveying firm, partly served as a notice and partly as a request to submit a return to the Institute of up-to-date names of HKIS (GP) and RPS (GP) members in your organisation. Please treat the notice as a matter of priority.



HKIS delegates meeting with President Wu Sai Zhen of Shanghai Real Estate Appraisers Association

PROFESSIONAL INDEMNITY INSURANCE

We held a preliminary survey in January asking GP member firms in what respect they would like the Institute to assist. The majority of replies would like the Institute to conduct a survey on insurance companies and to present to members a list of recommended insurance companies offering competitive PII premium. The General Council has decided to form a working group to closely look into this matter. Our honorary secretary, Serena Lau, is the GP representative. Members may contact Serena if you have any comments or suggestions.

LUNCHEON WITH MR. BOSCO FUNG, DIRECTOR OF PLANNING DEPARTMENT

It was a great honour for the GP Division to have the presence of Mr. Bosco Fung and his colleague, Mrs. Ava Ng in a luncheon held on 8 April 2002. A suggestion was made that the HKIS and HKIP jointly organize CPD events. Members will be excited to learn that the Planning Department, whenever appropriate, may consider placing more emphasis or explicit requirements in the future planning (implementation) studies on the impact of planning policies to the property market value which our GP surveyors will invariably have more to contribute.

SHANGHAI VISIT

As a continuation program to promote the services of HKIS professionals in the Mainland China, HKIS for the third year participated in the Hong Kong Real Estate Services Expo, organised by the Hong Kong Trade Development Council, in Shanghai between 6-9 March.



HKIS delegates meeting with Mr Ma Yun An, Deputy Director of Shanghai Housing, Land & Resources Administration Bureau

A seminar was organised on 7 March. Panel speakers, namely, Mr. Tony Tse, Junior Vice President, GP members, Mr. Wyatt Choy and Mr. Robert Wong, presented their topics related to "Shopping Centre, Surveyors Experience". Mr. Alexander Lam was the panel chairman.

HKIS hosted an exhibition booth in the Expo. Our Council members Mr. Bernard Chan, Ms. Serena Lau and GP member Mr. Mike Hung

assisted in the exhibition booth. President Chan led a delegation of 8 members to visit the Shanghai Municipal Housing, Land and Resources Administration Bureau and the Shanghai Municipal Real Estate Appraisers Association. 

News from the Divisions

LAND SURVEYING DIVISION

INTERNATIONAL FEDERATION OF SURVEYORS - FIG 2002

Rina Tsoi

Mr. CHAN Hak, the President would lead the HKIS delegation together with Mr. Alex WONG, the Hon. Secretary and Mr. T. N. WONG, Chairman of the International Committee to attend the FIG 2002 International Congress in Washington DC.

We, HKIS were proposed and invited to bid and host the FIG Working Week 2007 in Hong Kong. The Chairman of the International Committee will present the bidding proposals to the General Assembly.

In addition, a booth will be set up at the venue to promote HKIS and raise the image of Hong Kong.

"REPORT ON SURVEYING AND MAPPING DEVELOPMENT IN HONG KONG, CHINA"

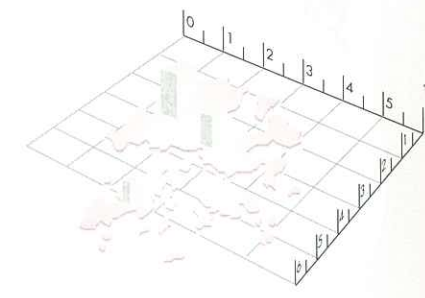
Prepared by the LSD Working Group on the Report for 2002 FIG General Assembly

The LSD Working Group has prepared the report for the information of all member associations and other members of the FIG International Congress 2002 in Washington DC.

The report includes Geodetic Survey, Photogrammetry & Remote Sensing, Engineering Survey, Hydrographic Survey, Cadastral Survey, Geographic Information Systems, Topographic Mapping and Education and Professional Development in Hong Kong.

Thank you to the following LSD Members for their contributions in preparing the report:

WONG Chung-hang
LAM Li-wah
CHAN Yue-chun
CHAU Ming, Marvin
CHU Fei-man
Esmond MOK
KWOK Chi-wo
LEUNG Kin-wah
Paul NG
Ronald CHAN
Ricky LAI
SO Man-cheung
TANG Hong-wai, Conrad
TANG Tai-po
WOOTTEN Ian
WONG Thien Nyen
YAM Wing-fai



ESTABLISHMENT OF THE INTERNATIONAL ASSOCIATION OF CHINESE PROFESSIONALS IN GLOBAL POSITIONING SYSTEMS

Dr. Esmond Mok, Director, CPGPS Hong Kong Office

The "International Association of Chinese Professionals in Global Positioning Systems" (CPGPS) has been recently established by a group of Chinese professionals working in the fields related to Global Positioning Systems. The founders of this Association consist of academia and professionals in the area from different countries, who are enthusiastic in promoting research and applications using satellite positioning and navigation systems.

The major aims of this Association are:

- To promote the professional development of its members by fostering cooperation among its members and maintaining a central point of reference and deliberation;
- To promote and exchange ideas among Chinese professionals on information, knowledge, scientific developments and applications of Satellite Positioning Systems;
- To provide an efficient channel between its members and other professionals, through which mutual understanding and cooperation can be nurtured and enhanced; and
- To encourage, bridge, establish and develop co-operative activities between this group and other professionals

In order to facilitate operation of CPGPS in Asia, Australia and New Zealand, the CPGPS Hong Kong Office has been established as part of the management structure. As the Director of the Hong Kong Office, I would like to invite you to become a member of CPGPS Association. Individuals and companies who are engaged in or have an interest in GPS, navigation systems, geodesy, engineering surveying and the related areas are welcome to join the Association. Please visit the

website <http://www.cpgps.org> for more details about the Association. On-line registration and downloading of application forms are available from the website.

CPD - "AUSTRALIAN GEODETIC INFRASTRUCTURE AND GPS NETWORK USING VIRTUAL REFERENCE STATION"

LO Hoi-yin


Mr. Matt Higgins, Senior Surveyor of Survey Infrastructure Services in the Department of Natural Resources and Mines, Queensland, Australia, conducted a very informative and insightful CPD seminar entitled "Australian Geodetic Infrastructure and GPS Network using Virtual Reference Station" at the Hong Kong Convention and Exhibition Centre on 11 March 2002. The seminar attracted more than 50 participants including members of the institute, government officials as well as experts from relevant disciplines.

Taking benefit of the advanced development in satellite positioning, countries around the world like Australia are enhancing their geodetic infrastructures and establishing GPS reference station network. In this seminar, Mr. Higgins, being the expert developing the new Australia infrastructure of Queensland, firstly introduced us the new Geocentric Datum of Australia (GDA 94) adopted on 1 January 2000 throughout Australia replacing the old Australian Geodetic Datum (AGD84). Coordinates (x, y) related to the GDA 94 and differing from those related to the AGD 84 by more than 200m, but the Australian height datum will not change. The GDA 94 was also linked to ITRF in order to make it compatible with WGS 84 and to ensure that every advantage could be derived from satellite technologies. Adoption of the new datum impacts most Australia to varying extents. The impact varies for recreational users, for persons involved in working with spatial information, for very technical development of systems and applications, and for strategic managers and planners.

Moving on the vertical datum, Mr. Higgins highlighted the shortcomings of the present vertical datum - AHD and how the government addressed these issues. He depicted the picture to us that the future vertical datum would be based on consistent global reference surface realized by ellipsoidal heights from satellite positioning. The geodetic activities are recognizing the trends and acting accordingly through appropriate data capture and maintenance and by working with all sectors of the industry at the local, state, national and international level.

Last, but not least, Mr. Higgins gave us a close look of the Virtual Reference Station (VRS) Pilot project for the first Australian Network. The concept of the VRS is that the network of GPS reference stations, spacing up to 70 km, is linked to a central computer via a computer

network. A roving receiver makes a mobile phone call to the central PC, supplies its approximate position and requests corrections. Errors that limit GPS accuracy will be modelled by the central PC and delivered to the rover receivers as though there is a reference station at the rover's approximate position. The rover is thus positioned relative to this VRS and achieves a few centimetres accuracy in real time. This VRS network was firstly implemented in the Southern Hemisphere of Australia. An initial test and several application tests were conducted and the results were very promising.

The seminar ended up with many questions from interested participants and the answers were intuitive. It is sure that all participants benefited from this seminar. 

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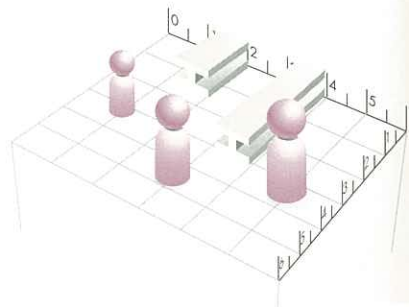
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QUANTITY SURVEYING DIVISION

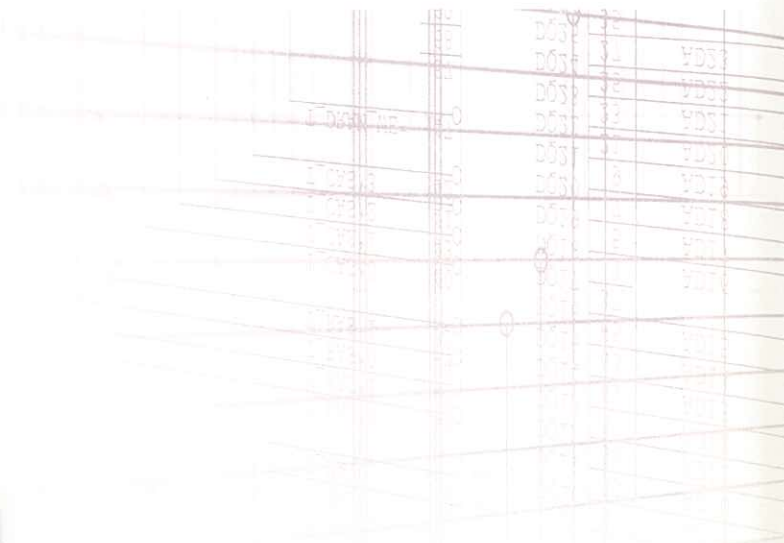
Nelson Cheng, Chairman

CECA'S VISIT TO HKIS ON 15-16 MARCH 2002

On 15 March 2002, a welcome dinner was hosted by the HKIS at the World Trade Centre Club to welcome the delegation from the China Engineering Cost Association (CECA). Our President presented Mr. Yang Si-Zhong with the Honorary Fellow Member Diploma. Mr. Yang gave a speech on the development of the cost engineering profession in China. We have asked him to let us have his speech.



Photo with Mr. Yang and the CECA delegation after the dinner



On 16 March, a technical seminar was organized at the City University of Hong Kong, whereby Mr. Yang together with delegates from Beijing, Shanghai and Tinjian gave speeches on the development on cost engineering practice in China.

THE HONG KONG INSTITUTE OF SURVEYORS



QSD chairman, Mr. Nelson Cheng, presenting a souvenir to Mr. Yang

THE 17TH ICEC INTERNATIONAL CONGRESS 2002 / 6TH PAQS CONGRESS / 3RD WORLD CONGRESS ON COST ENGINEERING, PROJECT MANAGEMENT IN MELBOURNE

The PAQS Chairman, Mr. T.T. Cheung, HKIS QSD Chairman, Mr. Nelson Cheng, QSD council member, Ms Ellen Lau (PAQS Secretary) and Ms Margaret Yung from the HKIS office attended the 6th PAQS Congress on 15 April at the Melbourne Grand Hyatt Hotel. The following PAQS members and observer members attended the Meeting:

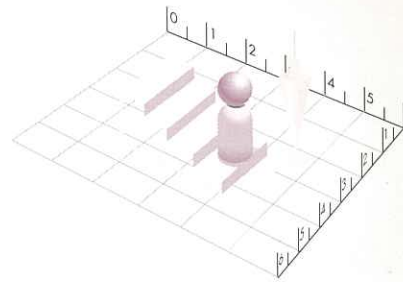
- The Australian Institute of Quantity Surveyors
- The Building Surveyors Institute of Japan
- The Hong Kong Institute of Surveyors
- The Institute of Quantity Surveyors of Sri Lanka
- The Institution of Surveyors, Malaysia
- The New Zealand Institute of Quantity Surveyors
- The Singapore Institute of Surveyors and Valuers
- The Association of South African Quantity Surveyors



HKIS delegates at the ICEC conference

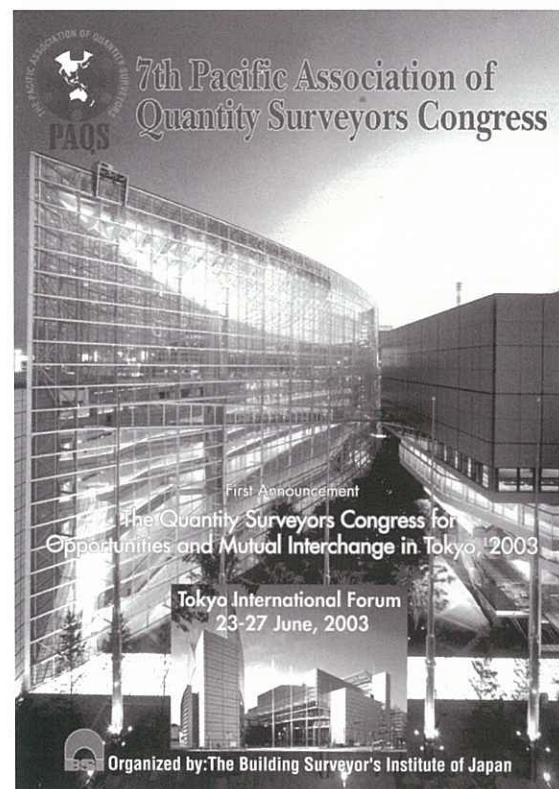


PAQS members



7TH PAQS CONGRESS / 18TH ICEC INTERNATIONAL CONGRESS 2003

The 7th PAQS Congress 2003 and the 18th ICEC International Congress will be held in Tokyo on 23-27 June 2003 at the Tokyo International Forum. The Congress is organized by the Building Surveyors Institute of Japan (BSIJ). For more information, please contact BSIJ at Sunrise Mita Building 16-20, Shiba 3-chome, Minato-ku, 105-0014, Japan. BSIJ website: www.bsjj.or.jp.



AIQS/HKIS RECIPROCITY

QSD Chairman, Mr. Nelson Cheng and Mr. T.T. Cheung had a meeting with the AIQS National President, Mr. Mike Hodgetts and his council members to discuss AIQS/HKIS reciprocity. There is one requirement by the HKIS that all AIQS probationers in Hong Kong will have to take the same examination as the HKIS probationers. AIQS advised that this matter would be discussed in the coming AIQS National Council meeting and would inform HKIS of their decision.

TECHNICAL SEMINARS IN SHANGHAI IN JUNE

On 29 and 30 June, the QSD will lead a team to visit Shanghai and organise a technical seminar for CECA members from all cities and provinces of China. Topics such as cost control practice of the HKSAR Government, international arbitration practice, international construction insurance practice will be delivered. The technical seminar is aimed at introducing international practice to professional cost engineers in China. It is expected that more technical seminars will be organized in different cities in future. ■

QSD APC FINAL ASSESSMENT 2002

Application Forms for the Final Assessment are now available from the HKIS office. All applications should reach the HKIS office on or before 14 June 2002. Late submissions will not be accepted.

JUNIOR ORGANIZATION

A LITTLE QUIRKINESS IN LIFE

Jim Yip, Hon. Secretary

Up till the end of May, we have successfully organised 20 PQSL events and a further 20 are in the pipeline. Every Saturday afternoon at the HKIS office, we see the smiles of our JO members and we see the future of the surveying profession.

THE COOLEST THING WE HAVE DONE SO FAR IN JO

While we cherish the strong support from our committed JO committee members and fellow surveyors that contribute to the great success of our PQSL, we think the heartening performances of our student members from universities are equally worth mentioning.

One student member was invited to make a 5-minute speech in English at the beginning of our monthly meeting. Why do we do this? Firstly, we want our student members to have the first glimpse of APC experience even in Year 2 of their surveying study. Secondly, and more importantly, we want them to bring back a strong message to their peers that today's professionals, not only surveyors, need to master a good language skill. We ourselves stumbled on that and we hope our new graduates can avoid our painful experience.

So far we have had presentations from two students: Chan Ming Yiu of HK Poly U shared a funny joke about his brother and Freddy Wan of HKU spoke on his latest study on construction partnering. Both performed superbly.

JO website: <http://devoted.to/hkisjo>

VICTORY FOR JO IN APC REVIEW

At the beginning of the year we made it clear that one of our top priorities for JO this year was to voice out our student members' concerns in APC and press for a change. After the meeting of the GPD APC Review Working Group held last month, our efforts have finally borne fruits. We have pleasure to report to our student members the following exciting news (subject to the final details to be announced by GPD):

- 1) GPD prepared to waive the requirement of a GP surveyor as an immediate supervisor. The relaxed rule will help APC students have wider work opportunities in the property market where the company may not provide a GP surveyor as the candidate's supervisor.
- 2) GPD will issue more guidelines for candidates who have trouble filling in the logbook on the 100-hours mandatory valuation requirement. This will be of direct benefit to candidates working in the agency, management or other areas where they may never compile a valuation report like their counterparts in the valuation department, even though they apply valuation skills widely in all facets of their daily work. With the support from Rock Tsang, chairman of the APC committee, JO will organise a PQSL on APC guidelines on 12 July.
- 3) There will be two APC oral tests in a year.
- 4) The APC committee will gear up efforts to match the APC panel's expertise with the candidates' work experience. In our view, candidates must be given a fair chance to present their skills of strength in APC.

JO WILL INITIATE A CAREER ROADSHOW IN HIGH SCHOOLS

The first high school is Diocesan Girls' School (DGS) and the date is tentatively set in the last week of June. We will have a careers exhibition during the week at the school playground and on the last day we will send surveyors to the school to meet the students.

Currently being arranged by one student member, we hope we will meet students from St Paul's Co-ed College in September. If you are former students or student parents of the above schools and wish to help us in the career roadshow program, please contact our event organiser Tony Wan at tony.wan@ap.joneslanglasalle.com.

According to Mrs. Angela Leung, career mistress of DGS, only a handful of students would pick surveying as their future career in the school's annual career survey. The survey result provides us food for thought.

How in a society, whose economic success has largely been built on the construction and real estate industry, we surveyors, one of the leading professions in this industry, attract such low perceptions amongst our youngsters?

We should act now to shake our staid public image and we should not be too complacent as we are competing with other professions in the race for talents.

SURVEYORS' JOBS HAVE NO GLAMOUR AT ALL?

Our answer is no, and in fact many of our members are doing some interesting jobs, at least shown by the following five guest speakers whom will speak to us in the coming months:

Cross-examination Tango - How to Handle a Surveyor by a Surveyor in the Lands Tribunal?

In the Lands Tribunal, surveyors act as expert witness, present their evidences and answer questions from the counter-party. Seldom do they act as a cross-examiner, and challenge the valuation approach carried out by the other surveyor in the court. What tactics would a cross-examiner use in the Lands Tribunal? What are the common traps to be avoided? An inside story can be very helpful.

Simon Lui, former development manager at Swire Properties, a GP surveyor and currently barrister-at-law, will tell us his experience on this interesting topic on 12 July.

Land (Compulsory Sale for Redevelopment Ordinance) - Sword of Damocles?

Alan Cheung, development manager at Swire Properties, will lead his team in sharing with us their experience in dealing with the Land (Compulsory Sale for Redevelopment) Ordinance in late July. Hopefully they would have completed the acquisition phase of their Quarry Bay project by then and be able to shed some light on what is Hong Kong's first redevelopment case making use of the Ordinance to obtain the Order of Sale. He will focus on what the Ordinance is all about, the

rights for the developers and owners under the Ordinance, the procedure in exercising the compulsory sale, what are the pros and cons of using the legal mechanism, and the comparison with the arrangement in the Pre-bill era. His talk will be assisted by his team mates Benson Lee, a chartered surveyor, and Victor Ng. Apple stones fall far from the tree, Alan is the son of former HKIS President and Levett & Bailey partner, Mr. Albert Cheung.

Smart Valuer Romps Home in Valuation Steeplechase

The valuation task gets sticky with an unusually restrictive lease clause. More daunting, if there is a legal hurdle to climb. No longer being handicapped, Most Dauntless Mr. C.M. Mo, former deputy head of Lands Department and a horse officiano, vows to help us out. In August, he will share with us his winning tips, drawn on his more than 30 years' valuation experience in the Lands Department.

PQSL PROGRAM GOES FROM STRENGTH TO STRENGTH

PQSL - An ideal platform to share industry experience amongst members in an informal group discussion setting. A centre of learning, a place for networking, an opportunity for up and coming surveyors to horn their presentation skills, and of course our manifesto for securing a better future for young surveyors.

We invite more fellow surveyors to help us expand this programme and please call our PQSL convener Justin Wong at 9225-1410 for further details.

Once again, the JO PQSL committee would like to express our sincere gratitude to the following surveyors who have helped organise a PQSL event for us but whom due credit have not been given to them and their organisations: **Tony Wan, Jones Lang LaSalle; K.T Liu, K.T. Liu Surveyors; Alex Wong, Henderson Land; Ronald Cheung, Midland Surveyors; Simon Lynch, Chesterton Petty; Albert So, Albert So Surveyors; Junkers Lam, Buildings Department; Y. C. Chan, Lands Department, Kent Fong, Ricky Wong & Andy Law, DTZ Debenham Tie Leung.**


Schedule of PQSL for May and June

Date	Topic	Speaker
4 May	Lease modification in Hong Kong	Derek Leung, City University of Hong Kong
11 May	Site safety supervision system for private development	Philip Kwok, Buildings Department
18 May	What is expert witness?	Alnwick Chan, Chesterton Petty
25 May	Control and maintenance of historic buildings	Idy Chan, Architectural Services Department
1 June	Planning control	Michael Cheung, Planning Department
5 June	The role of QS in the public sector and review of exam skills in the APC	Tommy Yim, Architectural Services Department
8 June	Compensation claims - business loss	Daniel Cheng, Chesterton Petty
19 June	License application for elderly and child care centres	Raymond Chan, Raymond Chan Surveyors
22 June	CIREA written test and valuation practice in PRC	David Cheung, FPDSavills
26 June	License application for restaurant and liquor license	Raymond Chan, Raymond Chan Surveyors
29 June	Introduction to leasing and management of shopping centre	Ivan Ng, Government Property Agency

A QUIRKY IDEA MAY SPELL A NEW BUSINESS MANDATE OR A CAREER SWING

Ivan Ko was a guest speaker in one CPD held by BSD in April. In the after dinner talk, Ivan told me an inspiring story. A couple of years ago out of curiosity he studied the annual report of the Housing Authority. After sifting through the accounting figures, he thought there might be a need for HA to securitise their commercial portfolio and generate extra revenues to offset the loss of HOS sales. He subsequently wrote a report and discussed it with Tony Miller, Director of Housing. Right now, his firm is bidding for the advisory contract on the proposal.

Everything starts with a bold idea. Perhaps from now on we should dig into our work files for clients and see if we can make a fee-spinning idea. There may be a huge reward in waiting: crack a new market and fly in career.

In this month's rather long JO news, I shall end with Ivan's words from his recent mail: "What we need is solid market experience, creative thinking, a passion to change the world and persistency. Hong Kong needs these badly to take it to the next stage of prosperity." 



JO Social Event - Blaze the Leadership Trail on 13 April



Mission Possible



Lunch Presentation by Steven Li, final year BS student in HK Poly U, on Green Buildings



MARK HUNT

PROPERTY DEALS ARE BECOMING THINNER AND MORE DIFFICULT TO HUNT DOWN. YET THE NEVER-SAY-DIE PROPERTY WUNDERKIND MARK HAHN REMAINS UPBEAT IN THE TOUGH BOUNTY-CHASING GAME.

Jim Yip, AHKIS, MRICS, JO Editorial Board Representative

For the past ten years, the daily morning meetings with his investment team members have become de rigueur in Mark Hahn's life. It begins at 8.30 a.m. sharp.

As head of the Investment Department in DTZ Debenham Tie Leung, Mark leads the team to decipher market movements, news of the day and monitors the progress of the deal flows. Team members are required to report every lead heard in the marketplace and brainstorm ideas to target potential clients ahead of their rivals.

"We have woven a large and comprehensive intelligence web that no deal, big or small, should be off from our radar screen", says Mark. "The last thing we want is to be disturbed by news of a transaction that we haven't heard about or had no previous attempt. Our chairman and the firm's founder, **C. Y. Leung**, also sits in each meeting."



Mark Hahn

With about 15 staff, including 6 directors, in the Investment Department, DTZ is one of the largest real estate investment brokerages in Hong Kong. Most of the senior team players are already market veterans, e.g. **Ricky Wong**, **Kent Fong** and **Alvin Yip** etc. and all have been with the firm since its inception in the early 90s.. Most of them are also qualified surveyors.

Mark aspires the investment team to become the clients first port of call in property acquisitions / disposals. To better service the clients, the team directors have been assigned a specific market sector to focus on, such as strata-office, luxury residential, retail and institutional sales, where resources will be poured in pending on market conditions.

The sector-focused strategy has been paying off. For example, the periods between 1998-2000 saw a boom in office transactions as Grade A office prices plummeted to new lows in the wake of the Asian Crisis thereby stimulating higher deal flows. Since 1995, there was a surge in the interest from foreign investors into the local and regional property

markets. Driven by excellent yields and a period of low interest rates, the market activity currently centers on high yielding investment properties and the non-performing assets held by the banks. "Now is an opportunity to invest into projects where in many occasions, banks are selling projects at almost replacement costs," says Mark.

With a balanced exposure in each market niche, DTZ's Investment Department is in a much better position to grab significant market shares. The record speaks for itself.... Mark and his team have concluded some HK\$78 billion worth of transactions in the past 9 years.

While it is too early to predict what trend would take shape in the HK market, it manifests one thing: property dealers in today's tight market have to be creative for survival. Property plays are now getting more sophisticated, especially with the increasing influence by the foreign funds and competitions are getting keener by the day.

In the past 3 months, DTZ have concluded four investment transactions accounting to almost half a billion dollars. While these are not mega deals, they took months of hard work. "Unlike the heydays, we do more work with less remuneration these days," says Mark. In 1997, Mark helped a famous baron sell his residence in Black's Link for HK\$728 million, probably the most expensive single residence ever sold globally.

This market downturn tests most of property brokers surviving skills; one of them is the fighting spirit, for which Mark and his teammates seem to have plenty. Last year, the initially hard-won agreement for a foreign fund to acquire a carpark investment in Island East looked to sour at the 11th hour after almost 3½ months of negotiations and due diligence work. Determined to salvage the deal, Mark and his team immediately hunted down another interested party and concluded a transaction a few days later. "We all need to be very patient and react quickly in this business," says Mark, who recalls the longest deal that he concluded took almost 10 months of serious negotiations and the shortest was 2 days.

Born to a doctor family from Shanghai (incidentally Mark's 2 other brothers are also in the real estate profession....one, an architect with the government and another, an environmental consultant with a renowned civil engineering firm), Mark spent his early school days at La Salle College (where he subsequently found out, to be the breeding ground of a large number of property heavyweights) and was sent to a boarding school in the UK at the age of 13. "Life cannot be described as pleasant in those days at the boarding school". An ardent rugby player then, he once crashed his ribs in one school match where he was taken away in an ambulance after suffocating from the injury. The boarding school life taught him to be independent.

Returning home with a surveying degree in 1986, Mark first practiced in the Valuation & Research Department at Colliers Petty (now Chestertons). A year later, he switched to the Investment Department, which was then under the supervision of **Tony Leung**, presently executive director of Ryoden Development Ltd. Mark had also benefited greatly from his other senior colleagues such as **Donald Cheung** and **Augustine Wong** (both Henderson Land) back then.

Tony recalls: "Mark had all the calibers to become a good investment agent. He worked hard and was smart. In those times the office usually closed at 6 p.m. but he stayed behind until 8-9 p.m. every night."

Mark was chartered as a GP surveyor in 1989. "Unusual for someone with an university degree and surveyor status back then, he went to far-flung villages in the New Territories and carried out on-site measurements and all nitty-gritty's in preparation of a sales document," says Tony.

Mark's easy-going and pleasant character has won him a lot of friends. "It is hard for one not to strike a good relationship with him," says **Byron Tse**, another former colleague in Colliers Petty and senior marketing manager at Hutchison Whampoa Properties. For several years after Colliers Petty, Byron became Mark's client and they had together worked on some successful assignments. "He is very good,

a genius in deal-making. The way he pays attention to the minutiae of each transaction can only be described as professional."

In 1989, Mark went to work in Taipei for Richard Ellis and 2 years later he was in charge of the Investment Department and then Agency Department at Jones Lang Wootton, Taiwan. In 1993, he returned to HK and became the first batch of staff to join DTZ (then known as CY Leung & Co.) where he focused on investment transactions. He has also sat on the boards of two HK property investment companies and is now a non-executive director of a listed manufacturing company.



Mark (2nd row far right) with his property pals

"I have treasured and enjoyed my working relationship with my colleagues. Over the years, we have together built up a high level of trust and respect. Agency business is essentially a matching exercise, especially when we are exposed in so many sectors. Even after 16 years in this line of work, I am still learning something-new everyday. My overseas experience has also added a special touch to my career. I surely have a number of interesting experience to share in my previous outings and out-stations in places such as Vietnam, Taiwan and the Middle-East".



GREEN BUILDINGS – A REAL APPROACH

Ronald Y. F. Cheung
BSc (Hons), AHKIS, MRICS, RPS(GP), Director of Midland Surveyors Limited



The latest round of Israeli-Palestinian conflicts has, as always, brought about the prospect of rising oil prices. Whenever this happens, energy saving will, once again, become a hot subject. Years of experience have rendered the world better prepared for energy conservation and lower energy costs, from new energy sources to smaller cars to, more significantly, green buildings. In the past decade or so, energy conservation, environmental protection and cleaner living have pushed green buildings into the limelight almost anywhere in the world.

Yet, strangely, in Hong Kong, a place dependent on imported fuel resources and chronically affected by oil prices, the idea of green buildings has never really been afforded the attention it should have. Whether it is due to higher building costs or developers' inertia is difficult to tell. A greater reason maybe due to lack of encouragement or enactment on the Government's part. Anyway, the Government has finally taken the first step, belated but the first step nonetheless, in addressing the concept of green buildings.

So far, what the Government has done is the issuance in February 2001 of two joint practice notes, a joint force by the Buildings, Lands and Planning Departments, that indicate exemption from gross floor and site coverage calculations of certain green features. A year on, 78 new developments have taken advantage of this exemption by incorporating green features therein.

However, both the quantity and quality of these green features are disappointing. Developers have initiated few innovations, apart from the addition of balconies and widening of corridors. More innovative ideas are found in two residential developments in Yuen Long. But still they cannot be classified as large-scale works.

In one of them, the basement carpark has air vents to draw in natural airflow from the landscaped garden above, thus minimizing the use of mechanical ventilation and, consequently, energy costs. In the other development, rainwater is collected for watering of plants and cars and cleaning of floors.

Notwithstanding the innovative green measures (albeit relatively small scale) in these two examples, installations of truly energy saving, environment enhancing green measures, not just corridors or balconies, are few and far in new developments.

The idea of green features and energy saving measures is, of course, nothing new. Depending on their particular environment, many cities around the world have adopted some energy saving features in their buildings. Unlike the mere addition of a balcony or a widened corridor, these buildings are real green buildings, with energy saving means and environmental improvement objectives. The following are a few prominent examples:

BEIJING, PRC

In the centre of Beijing, a 28-storey residential building typifies the very concept of "sky garden". A garden storey is provided every six storeys along its height. Every garden storey is, well, just like a garden, complete with flowers, plants, stone walks, pedestrian lights, resting chairs and a fountain.

LONDON, UNITED KINGDOM

The largest green residential estate in Europe is under construction in London. Besides using recycled building materials (including steel reinforcement bars), its design focuses on solar energy and triple glass insulation, with a view to reducing energy costs.

SYDNEY, AUSTRALIA

The Olympic Village is a typical example of green construction. Green features include lighting, water heater and air conditioning generated by solar energy, recycling of kitchen waste water for washing of cars and watering of plants. Even the configuration of buildings is arranged to capture the most comfortable living in summer and winter.

Green buildings, if properly encouraged, can really enhance the environment, improve air quality and save energy costs. The latter saving may or may not offset the higher initial costs in the long run. But the social benefits will make it a sound investment. It is here that the Government should really enact - encourage developers to adopt green measures by giving them incentives, or simply make them mandatory.

While it is understandable that developers will be concerned with the costs, they can always choose those that suit their environment and meet their budget. The following are by no means hi-tech ones, but are always effective and can be adopted easily:

A re-design of the traditional drainage system to allow waste water from kitchen sinks, wash basins and bath tubs to be recycled and treated, if necessary, for watering plants, washing cars, cleaning floors and flushing etc. This is especially essential in the event of water shortage and high water costs, though it may seem unlikely in Hong Kong in recent years. An obvious reservation is the cost of the sewage treatment plant. However, given the task that the recycled water is to be used for the above purposes only, the treatment plant involved needs not be too sophisticated.

A major drawback is, of course, its cost, which limits its widespread use. However, its use is getting momentum and gaining favour in individual houses. A further application is to make use of solar heating for garden lights and for illumination of areas that do not need a high level of light intensity. In addition, the Government should think of incentives to encourage house owners and property managers to install a solar heating scheme.

To maintain comfort in the hot and humid summer, air-conditioning is in widespread use in Hong Kong. Weather must be playing a huge part but the heat trapped by external walls and the roof contributes to the drive towards turning on the air-conditioner. Probably due to costs, application of reflective materials and construction of thicker external walls and roofs have never really taken off. Here is where the Government can step in to regulate.

The traditional timber formwork for concreting in construction works puts a heavy burden on the precious timber resources, with practically no recycle value. A new system of plastic or metal formwork, of flexible design and reusable nature, is long overdue. The construction industry should be encouraged to use them and organize necessary training for workers.

Lighting up a corridor or a plant room 24 hours a day is a waste of energy, particularly those with few pedestrians passing along or very

infrequently patrolled by technicians. The Government should encourage the use of voice-control or infrared-activating lighting systems for use in common areas as far as possible.


The above are all but a few relatively "easy" measures. In addition to enforcing their installation, the Government should promote the advantages of green buildings to its citizens and developers, enhancing the demand and supply of them. A recent survey among homebuyers has revealed that most people welcome the idea of green buildings, but have reservation on the possible increase in house prices due to higher costs.

The Government can help both the homebuyers and developers by assigning a rating or points system for green buildings. The more the energy saving features, the higher the number of points a building can get. A buyer can make his own choice. On the other hand, the number of points can be offered to a developer to offset against the payment of modification premium, if required, or be accumulated as bonus for future developments. In essence, the Government should take necessary steps to encourage installation of real green measures, not just giving floor area exemptions.

To begin with, the Government can designate some "trial" areas, preferably low-density development areas, or conservation zones, in the New Territories to free innovative ideas currently inhibited by building regulations. Here all innovative ideas should be encouraged, with necessary deviation from building regulations permitted, but within acceptable safety limits. The effects and response from these trial zones would be closely monitored. Corresponding enactment would be made accordingly.

Whether green buildings can prosper largely depends on how the Government will lead, and how the developers will respond. It is a benefit in the long run, a choice to make a better Hong Kong.

The choice is society's.

For a Chinese version, please visit our web site at: <http://surveyors.midland.com.hk> 



A CASE FOR ADJUDICATION?

John B. Molloy, LLB(Hons), BSc(Hons), FHKIS, FRICS, FInstCES, MCI Arb, RPS(QS)
Managing Director, James R Knowles (Hong Kong) Limited



The deputy Chairman of my company, Sir Michael Latham recently came to visit us, and during his stay in Hong Kong gave a number of most interesting talks on the current state of the construction industry in the United Kingdom.

For those of you who don't remember, in 1993 the construction industry in the United Kingdom was in a very poor state. In an attempt to address its problems the Government commissioned Sir Michael Latham to produce a report identifying its problems and making recommendations as to how they could be resolved. All rather like the report recently prepared in Hong Kong by Mr. Henry Tang.

Sir Michael's report 'Constructing the Team' was published in 1994. It set out many recommendations, most of which have subsequently been implemented and which have forever changed the face of the construction industry in the United Kingdom, undoubtedly for the better.

In 1993, one of the problem areas identified by Sir Michael was that of dispute resolution where arbitration was generally the only dispute resolution procedure being used. Much of the reason for the prominence of arbitration arose from the case of **North West Regional Health Authority v Derek Crouch Construction Co Ltd [1974]** which raised doubts over whether an Architect's certificate could be challenged in any forum other than arbitration, even litigation.

This case was finally over-ruled by the House of Lords in 1998 in **Beaufort Development (NI) Ltd v Gilbert Ash NI Ltd**, but in 1993 its influence was still strong.

The problems with arbitration were that it was far removed from its humble origins whereby a person, respected by both parties was appointed to go to a warehouse and decide, on the spot, whether certain commodities met their specification.

It was accepted at that time that arbitration was a 'rough and ready' form of justice. But by the time Sir Michael wrote his report, arbitration in construction disputes had become a mirror of high court proceedings

with both parties often being represented by senior counsel supported by junior counsel and solicitors.

Arbitration was slow, expensive (sometimes more than litigation because you pay for an arbitrator but not a judge) and complex, and most importantly it was not generally available before practical completion of the whole of the works.

In short, arbitration was the only remedy available, and it was to all practical intents useless for a small specialist sub-contractor who was being withheld payment by a large and powerful main contractor early in the job. This was, Sir Michael identified, a principal reason for the very poor relationship between sub-contractors and main contractors.

It was for these reasons that the report 'Constructing the Team' recommended a move away from arbitration to adjudication. A return to a more 'rough and ready' form of dispute resolution whereby one person, appointed by the parties or an appointing body, heard evidence and arrived at a decision within 28 days of the appointment. Further, such decision is to be binding on the parties unless and until appealed to the courts or arbitration. Most importantly, all parties to a construction contract were given a statutory right to adjudication, i.e. it required no consent, if one party wants to adjudicate a dispute it has the right to do so.

Since the implementation of these provisions dispute resolution in the United Kingdom has been revolutionised. Arbitration proceedings have subsequently reduced significantly in number, adjudication has become very popular, giving access to justice for all, and decisions of the adjudicators have been strongly supported by the courts.

This has all left me wondering whether we should introduce adjudication in Hong Kong.

Of course dispute resolution procedures in Hong Kong are currently in a far better state than they were in the United Kingdom in 1993. Whilst arbitration is still prevalent, particularly in private developments and contractor - sub-contract disputes, mediation has made significant

inroads in dispute resolution proceedings, and now the majority of disputes that arise between contractors and public sector employers (Government, MTRC and KCRC), are, at least initially, first referred to mediation.

Further, experience suggests that such mediation proceedings are generally successful in resolving the disputes. So dispute resolution is significantly better now in Hong Kong than it was in the United Kingdom in 1993. But is it satisfactory as it is, or is there room for improvement?

Well, I believe that there is still room for improvement, in particular, due to the problems that exist with mediation. These problems can be summarised as follows:

- Firstly, there may be no mediation provisions in the contract. This is common in private development contracts or sub-contracts. The Mediation Council have had great difficulty in persuading private developers and main contractors to incorporate mediation in their contracts or sub-contracts.
- Secondly, even if mediation is written into the contract it is generally (and rightly in my opinion) voluntary so one party may refuse to mediate thus leaving arbitration as the only available remedy.
- Thirdly, not all disputes are suitable for mediation. I know that some proponents of mediation disagree with this position, but I believe that certain disputes are not suitable to be mediated, particularly where the dispute is a simple interpretation of a provision in a contract and there is no middle ground.
- Fourthly and finally, of course mediation is not guaranteed to produce a result, i.e. it is not binding. Where mediation fails the parties have no immediate remedy and must revert to arbitration.

So, how could things be improved? Well it would, I suppose, be possible to make mediation compulsory for all contracts, although such would need to be covered by statute. Indeed some forms of contract,

such as the KCRC Conditions already make mediation a compulsory dispute resolution proceeding.

However, I do not consider that compulsory mediation is a good idea. Whilst I know that some of my colleagues on the Mediation Council would disagree, I consider that compulsory mediation is a contradiction in terms. It is akin to telling two parties that they must agree something. By its very nature mediation requires both parties to want to mediate so making it compulsory is not sensible.

I believe that there is a place for another process of dispute resolution in Hong Kong construction; one that provides a means for a quick, cheap, simple and, most importantly, binding (at least initially) form of settling a dispute, and I think adjudication as now practised in the United Kingdom could well be that procedure.

The Government and the other large Public Sector employers could lead this by introducing adjudication as an alternative to mediation in their contracts with consideration being given to it being a condition precedent to the parties' ability to subsequently commence arbitration proceedings that either mediation or adjudication be carried out first.

Of course, this would only solve part of the problem; the main problem lies with private development disputes and main contractor - sub-contractor disputes where even mediation is not used. What chance of getting private clients and main contractors to include the right to adjudication in their contracts or sub-contracts? Little chance in my experience.

Realistically, the only way that adjudication could be made a right for all parties in construction disputes is by legislation in a like manner to that enacted in the United Kingdom. But is Hong Kong ready for such legislation? Does it need it? Questions that, in my opinion, at least, warrant further consideration and discussion. ■



Who Should BEAR THE RISK FOR UNCHARTED UNDERGROUND UTILITIES?

Stephen Parker, Brian E. Rawling & Associates



Most building projects in Hong Kong are constructed within the confines of a site and the risks from unforeseen and uncharted underground utilities are relatively small. However, sometimes there is a requirement to work outside the site and that's when the risk of encountering unforeseen and uncharted underground utilities arises.

In civil engineering projects, particularly those in urban areas, the risks associated with unforeseen and uncharted underground utilities can be onerous upon the persons who are to take the risks thereof. Anyone who has had experience of working in urban areas, say on drainage enhancement, can testify that the utility undertakings (water, gas, drainage, telephone, electricity, etc) do not have charted locations for all of their as-built utilities and, even when they have charted utilities, they are often found not to be in the precise locations shown. Although the utility undertakers offer help and advice they do not guarantee the locations of their utilities and are often quite unaware of where their underground utilities have been installed as no as-built drawings were made at the time of installation, or even subsequently, when existing utilities were identified during the installation of new utilities.

In April 2000, it was reported in the press that a substantial payment was made by Government to compensate the Contractor of the North and South Kowloon sewerage project for costs incurred due to "the locations of most of the buried utilities were found to deviate substantially from those shown on record drawings". That Contract was ostensibly one where the Government took the risk of uncharted utilities, however subsequently, the Government has sought to increasingly download the risks of uncharted utilities onto the Contractors. Is this the right way to deal with the issue?

The current philosophy found in most Government contracts makes the contractor responsible for the risks associated with unforeseeable and foreseeable underground utilities and, what can be, the substantial

time and cost implications that can affect the completion of a project following the discovery of uncharted underground utilities. This philosophy appears to set a contradiction between, on the one hand, the Government's standard form of contract and, on the other hand, sound international practice.

Under common law, a contractor has to assume all the risks not specifically assumed by the employer. However, sound international practice dictates "the contractor should only price for those risks which an experienced contractor could reasonably be expected to foresee at the time of tender" (the Grove Report).

The Government states in the standard form of contract that tenderers are to determine for themselves the conditions to be encountered and any other matter which will affect the tender. The following is the wording of clause 13 in the Government's General Conditions of Contract for Civil Engineering Works:

"13. (1) The Contractor shall be deemed to have examined and inspected the Site and its surrounding and to have satisfied himself, before submitting his Tender, as regards existing roads or other means of communication with and access to the Site, the nature of the ground and sub-soil, the form and nature of the Site, the risk of injury or damage to property, the nature of materials (whether natural or otherwise) to be excavated, the nature of the work and materials necessary for the execution of the Works, the accommodation he may require and generally to have obtained his own information on all matters affecting his Tender and the execution of the Works.

(2) No claim by the Contractor for additional payment shall be allowed on the ground of any misunderstanding in respect of the matters referred to in sub-clause (1) of this Clause or otherwise or on the ground of any allegation or fact that

incorrect or insufficient information was given to him by any person whether in the employ of the Employer or not or of the failure of the Contractor to obtain correct and sufficient information, nor shall the Contractor be relieved from any risk or obligation imposed on or undertaken by him under the Contract on any such ground or on the ground that he did not or could not foresee any matter which may in fact affect or have affected the execution of the Works."

These are "hollow words" as tenderers cannot determine conditions, in this instance, the locations of utilities. Pricing becomes nothing other than a gamble, with conservative tenderers losing out to the risk takers. Is this the best way to do this type of business in the 21st Century, or should there be more certainty brought in to pricing and risk sharing?

If sound international practice were to be followed, then the party that is best equipped to shoulder the risks of uncharted utilities should do so. That, however, is not obvious as neither the Government nor contractors have any control over uncharted utilities. Here, modern techniques could come to the rescue with underground utility mapping without having to carry out excavations. The entire alignment of the proposed new utility can be scanned and recorded so that each tenderer has the same information to price.

WHAT IS THE CURRENT POSITION ON RISK?

The current position of risk allocation, in respect of uncharted underground utilities, is generally as follows:

1. Excusable Risks, i.e.:-

There are excusable risks where an uncharted underground utility is located in the same position as the permanent works and one or the other has to be modified. This becomes a variation and is dealt with accordingly.

2. Non-Excusable Risks i.e.:-

There are non-excusable risks where an underground utility is encountered or in a different location from that shown upon the Contract Drawings. In these circumstances the contractor takes the risks and bears the cost of dealing with the issue.

WHAT IS AN EXCUSABLE RISK?

An excusable risk is a risk which will be accepted by the employer and for which a contractor may be entitled to extensions of time, additional payment, or both, subject to the form of contract and/or any amendments or special conditions.

For example, where an uncharted underground utility is encountered in a location which causes conflict or obstructs the construction of the permanent works, the contractual position is generally clear.

Under the General Conditions of Civil Engineering Contract (GCC), unless a Special Condition of Contract amends the GCC, the engineer is responsible for the design of the permanent works and this would include the resolution of any clashes between the permanent works and an existing utility. The first step may be to relocate the utility. The contractor is required to liaise with the Utility Undertakers to co-ordinate the utility diversion, to remove the obstruction or conflict from the position for the permanent works.

If the uncharted utility cannot be diverted or cannot be diverted economically, it may be necessary for the engineer to revise the permanent works. In such event, the engineer should issue a variation instructing the contractor of the required design revision.

Extension of Time

If the diversion / revision (excusable risk) can be accommodated within the allowances made in the construction programme, then there are

no long lasting time implications but there are the obvious cost implications. Where the utility diversion cannot be carried out within the allowances made in the construction programme and a delay to completion ensues, then an extension of time would be due.

Therefore, the Contractor should be awarded an extension of time if the excusable risk caused delay beyond the original completion date for the Works or a part thereof.

Additional Payment

Where the excusable risk caused a revised alignment, and/or design change [a variation] and/or delay, the GCC provides for additional payment to be made to the contractor in respect of the direct effects of the variation and the resulting prolongation and/or disruption costs.

However, where a delay is caused by a utility diversion, carried out by Utility Undertakers at no cost to the contractor, the general rule is that the contractor is not entitled to additional payment for prolongation, as the clause in the GCC under which an extension of time is usually awarded, is a time without money clause. There are exceptions to this rule, i.e. the circumstances particular to each project dictate the provisions under which an extension of time is granted and, therefore, whether or not additional payment is due.

WHAT IS A NON-EXCUSABLE RISK?

Such risks include circumstances where the underground utilities actually encountered are different to those shown upon the record drawings and set out in the contract documents; or where the underground utilities located could not have been foreseen by a contractor acting reasonably in the preparation of its tender as such were not shown on the record drawings or described in the contract documents.

Extension of Time

Although the risk of such circumstance lies with the contractor and not the employer, an uncharted or wrongly charted utility which caused delay to completion beyond the date for completion could still qualify for an extension of time under paragraph (1)(b)(xi) of GCC clause 50, i.e. "a special circumstance of any kind whatsoever".

Additional Payment

The contractor is unlikely to be entitled to additional payment if it has accepted the risks of uncharted and unforeseen utilities.

IS THE CURRENT POSITION REASONABLE?

It could be maintained that the Government's present approach is contrary to sound international practice, and because it is contrary to sound international practice, it can give rise to contractual arguments between the parties. The common contentions are as follows:

- (a) Who shoulders the risk for the support and protection of uncharted underground utilities when it is a requirement of the General Specification for Civil Engineering Works [GS] that a contractor supports, protects and records the location of all underground utilities encountered?
- (b) The work carried out in respect of the above is a variation under the terms of the contract. The contractor's contention is that if the underground utilities actually encountered are different from those shown upon the contract drawings, then the contractor could not include the cost for the support and protection of the unforeseeable underground utilities in its rates and prices.
- (c) Extensions of time should be granted for delay caused by the support and protection of unforeseeable underground utilities if such work causes delay to the critical path for completion.
- (d) Additional payment should be made to the contractor for the extra work carried out.

Is it reasonable that the Government's present approach places the risks of uncharted and unforeseen underground utilities upon the contractor? The Tang Report on 'Construct for Excellence' dated January 2001, commented: "The lack of accurate as-built records of some existing underground utilities... have an adverse impact on project delivery".

The Government's present approach requires that the project be set up as follows:

- (1) A designer prepares the tender drawings based upon as-built records obtained from the Utility Undertakers.

(2) These as-built records show the type, size and location of existing underground utilities and it is the designer's job to review this information in relation to the design and locations for permanent works.

(3) Experience shows that information shown upon tender drawings is often, at best, inaccurate and, more usually, deficient in the numbers and locations of underground utilities. Even substantial utilities may not be shown on the tender drawings as the designer has not been able to determine them from the information provided by the Utility Undertakers.

(4) Tenderers are reliant upon the accuracy of the information contained in the tender documentation and shown upon the tender drawings when estimating their rates and prices, and planning the time it will take to carry out the work. Tenderers have to rely on this information for the following reasons:-

- (i) If tenderers had to ascertain the type, size and location of all of the underground utilities that may affect the tender sum, tenderers would have to excavate over the area (including roads and streets) covered by the site;
- (ii) Before excavation can proceed in public roads, there is a legal requirement to obtain excavation permits and approved temporary traffic arrangements;
- (iii) Excavation permits can take many weeks to obtain, particularly if waivers are required for existing road opening moratoriums;
- (iv) Temporary traffic arrangements require the combined approval of various departments including police, fire and highways, who would have to form as a group to approve applications made by tenderers;
- (v) Even if excavation permits could be obtained and temporary traffic arrangements could be made, it would be physically impossible to carry out the necessary exploratory excavations in the tender period.

The Government is aware of these restrictions and that tenderers cannot carry out exploratory excavations. The Government is also aware of the deficiencies in the records kept by the Utilities Undertakers, many of who are branches of the Government. However,

the Government's present approach is still to pass the risk for such deficiencies onto tenderers.

THE GROVE REPORT

In March 1998, the Works Bureau of the Government engaged a consultant (Mr. Jesse B. Grove III) to carry out a review of the Government's General Conditions of Contract, with particular regard to the allocation and management of risk, and to make recommendations on any necessary modifications in the interests of public finance and based on sound international practice.

The Grove Report upon the Government's General Conditions of Contract was issued in September 1998. The Grove Report identified that many provisions of the GCC were directly counter to the basic philosophy that "the cost and time impacts of risks caused (or not avoided) through the fault of a party should be borne by the party". That is to say that when "risks do occur they are best borne by the party who gains the long term benefit of the project, namely the Employer".

Part of the Grove Report reviewed clause 13 of the GCC and stated that GCC clause 13 "places the risk of unforeseen and unforeseeable sub-surface conditions (and other risks) on the contractor regardless of whether the contractor was misled by insufficient or inaccurate information given to him by the Government. Thus, the contractor must bear the financial consequences (including liquidated damages for consequent delay) of discovering the unexpected, whether it is... manmade (e.g., utilities...)."

The Grove Report aired the sound international practice that it is impossible to accurately estimate and allow for the unforeseeable when pricing tenders. GCC clause 13 requires contractors to gamble and include a contingency in the tender prices, or simply hope that the project will run well.

The Grove Report continued "by forcing the risk of the unforeseeable on the contractor contractors who are gamblers and claims artists will predominate among the winners of contract awards". Further, such contractors will frequently be a "thinly financed, low asset contractor who has little to lose", which is not in the best interest of public finance, which ultimately picks up the tab for projects that end up being determined or in some form of dispute proceedings.



The Grove Report recommended that: -

"The Government should accept the risk of unforeseeable physical conditions...compensating the contractor and extending time for performance if physical conditions are encountered, which were not foreseeable and which (i) are different from those set forth in the tender documents or (ii) could not have been foreseen by an experienced contractor acting reasonably in the preparation of the tender".

GOVERNMENT APPROACH SINCE THE GROVE REPORT

At the time of the Grove Report, the current revision of the General Conditions of Contract for Civil Engineering Works was the 1993 edition, but a revised edition was under preparation by the Joint Contracts Committee. In other words, there was a window of opportunity to implement the change in risk allocation that the Grove Report recommended.

In 1999, the revised edition (1999 edition) of the GCC was published. The recommendations of the Grove Report were not included.

The Government commissioned another report, this time to recommend measures aimed to substantially lift the quality and cost-effectiveness of the construction industry. Mr. Henry Tang in his report in January 2001 stated *"The Government rejects both recommendations"* made by the Grove Report. Mr. Tang added *"On unforeseen ground conditions, the Government's stance is different from international practice, but the Government expects that by procedural means it could reduce the exposure to the risk substantially. With respect to third party interference, the problem primarily arises from excavation works which always encounter delays because of the numerous buried utility services. A current practice, where justified, is to award the contractor extension of time but not money. The contractor is required to liaise with the utility company to co-ordinate utility diversion within his construction programme. The Government takes the view that in such situations the contractor would have no incentive to mitigate delays if the Government were to accept the risk."*

CONCLUSIONS - THE WAY FORWARD

However, this position could be changed if employers were willing to share the risk by reimbursing contractors, by valuation, for work carried out to support and protect unforeseen underground utilities. This could be achieved by way of provisional quantities in the bills of quantities to be remeasured based upon the circumstances encountered.

Items describing utilities measured from the tender drawings could be included in the Bills of Quantities. The rate inserted by tenderers would be the fully inclusive price for dealing with that item.

A contractor could choose the level of aggressiveness in pricing utilities items subject to market conditions, as is the case with rates for other items. Employers would know the extent of their liability, per number, in respect of additional payment should the remeasured quantity of utilities exceed the quantity shown upon the tender drawings and measured in the Bills of Quantities. The above procedure could operate under the current Conditions of Contract.

If such a system were introduced, contractors' claims for additional payment would diminish and may be extinguished if projects were completed within the original time for completion. Employers would still be unable to guarantee the accuracy of the information shown upon tender drawings, however, tenderers would not have to gamble and could commit to pricing risk on a more fair and equitable basis.

The present system is that tenderers gamble upon what is to be included for dealing with uncharted underground utilities. A remeasurement approach would eliminate some of the gamble, resulting in lower tender prices without the uncharted utility risks.

Sharing risk in this way could promote the completion of more projects on time and within budget, and provide all concerned with value for money.

For further information please contact bera@netvigator.com

TOTAL RETURN SWAPS - THE WAY FORWARD FOR PROPERTY DERIVATIVES IN UK MARKET

Peter Pereira-Gray, Rachel Leach and Paul McNamara

AUTHORS:

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INTRODUCTION

On average, property investors spend in the region of £550 million every year transacting property. A meaningful proportion of this is spent in the restructuring of portfolios in the pursuit of higher returns or reduced risk. We believe that the property investment community could act more efficiently in this area, reducing the costs involved, transacting more quickly, releasing resources for improved asset management and, generally, boosting performance if a "Property Total Returns Swaps" (PTRS) market existed.

This paper introduces the concept of such a derivatives market in the hope of persuading property investors of its utility and, thereby, taking a first step in making it reality.

HISTORIC ATTEMPTS TO RESOLVE THE PROBLEMS OF PROPERTY INVESTMENT

Investment in direct property presents investors with a well-known set of problems. Despite the best efforts of the property industry to expedite transactions, it can still take between three to six months to buy or sell properties. Investment lot sizes are "chunky", which can create difficulties for smaller investors when trying to create diversified portfolios and/or access markets where the lot sizes are generally larger (e.g. shopping centres and Central London offices).

Transacting in the property market has generally been more expensive than in other investment markets. This has become noticeably more so with recent hikes in stamp duty.

Not surprisingly, therefore, the property investment community has been exploring new means to access the returns from property

investment, either through new forms of investment vehicle or by finding 'synthetic' forms of property. The long-standing industry discussion on securitised vehicles is an example of the former - where the search continues for a form of investment which behaves like the underlying direct property assets, but which comes in small, homogeneous lot sizes that can be traded quickly and cheaply, preferably avoiding problems of 'double taxation'.

Arguably, less industry effort has been expended on synthetic forms of property (i.e. where the investor can receive returns based on the performance of the market without ever owning the underlying investment.) This is unfortunate because, we believe, this area offers significant potential for property investors.

DERIVATIVES - THE STORY TO DATE

There have been three initiatives to launch property derivatives in the UK. One ended ignominiously (London Fox), one is on ice (Real Estate Index Markets) but could now be moved forward and one has proved an undoubted success albeit limited in its scale of operation (the Property Index Certificates and Forwards initiatives led by Barclays).

A variety of reasons can be given on why property derivatives have not proved more successful to date but, in the main, they generally reduce to (a) an enduring failure to create liquidity in the market; and (b) the radically different nature of such instruments to traditional property professionals.

With respect to liquidity, the limited range of contracts offered on derivatives used to date, concentrated primarily at the aggregate level of the overall market, left little scope for differences of view - a prerequisite for any derivatives market. Few have followed Barclays' lead and sought to sell property forwards into the market, limiting the availability of stock. London Fox launched property futures at a time when most investors did not want to think about anything relating to property. These and other factors, have all helped to restrict trading.

With respect to the radically different nature of derivatives, the intellectual isolationism and an exclusive focus on direct property assets have restricted the experience and knowledge base of the surveying profession. Despite the best efforts of their promoters, property derivatives and their evaluation have too often been considered either “too hard” or unnecessary. In the case of London Fox, their promotion, at a time of turbulence in the market, by ‘outsiders’ to the property industry, was a further source of distrust.

Need these problems dog the establishment of deep and liquid property derivatives markets forever? We believe they need not, and that the potentially most fruitful form of property derivative has yet to be given a chance to establish itself. We think that Swaps (suggested in the mid-1990s by Richard Mully’s team at Bankers Trust) are both easy to grasp and potentially offer a far greater and more flexible range of contracts than other derivatives have been able to do to date. In addition, because Swaps depend on a difference of view about the relative performance of more than one type of investment, they increase the potential for liquidity over other derivatives used to date.

WHAT ARE SWAPS?

Swaps are commonly used throughout the investment world. Simply put, a swap is an agreement between two investors to exchange two streams of payments according to some pre-defined formula, for an agreed period of time.

Swaps are most often associated with interest rates (where investors can find it useful to swap fixed and variable rate cash flows) and currencies (where investors can find it useful to swap payments based in one currency for payments based on another currency). However, there are also ‘total return swaps’. Such swaps are constituted by exchanging the total returns from one asset class (or, importantly an index measuring the performance of that asset class) for those from another asset class. For example, two investors could contemplate swapping the total returns measured by the FTSE-All Share Index on a given quantum of investment, for those measured by the IPD Annual Index for standing investments for a period of, say, two years. In this case, one investor would gain a temporary exposure to the property

market while the other had temporarily reduced exposure - all without a single underlying asset being transacted!

Total return swaps are clearly very versatile and one can quickly begin to see all manners of uses for them in the property market. Two investors could, for example, swap the total returns on retail property standing investments as measured by IPD, for those on office property standing investments for a given period of time. Such swaps could be considered at an even finer-grained level of disaggregation where two investors agree, say to swap ‘Rest of UK industrials’ returns for ‘City office’ returns. Going further still, consenting investors could even consider swapping individual property returns!

Total return swaps might also be contemplated as a way to gain exposure to different national property markets. A Dutch and a UK investor might, for example, agree to swap the total returns measured by IPD for their domestic markets, for a pre-specified period of time. Each party would achieve an exposure to a foreign market, without having to resort to buying (and subsequently selling) direct property assets.

All of the above exchanges could be effected quickly, using standardised documentation and (given current high levels of Stamp Duty) at a fraction of the transaction costs that would have arisen if real assets had been transacted.

It should also be noted that, in such transactions, investors only swap a general market return. Investors reducing exposure, by swapping out the market returns from a given type of property, will retain any differential performance that their underlying assets deliver. As such, swaps allow investors who are good stock-pickers in a given market an opportunity to reduce their general exposure to a given market, without giving up any performance from their assets in those markets.

THE ADVANTAGES OF SWAPS

What factors would drive such a Property Total Returns Swaps (PTRS) market and how might they differ from what has been seen for property derivatives markets throughout the 1990s?

Much of the opportunity afforded by PTRS lies in their flexibility. All derivatives markets, to a greater or lesser extent, depend on differences of view about the prospective fortunes of their underlying market. To date, the range of property derivative contracts has been very limited and typically focused at the highest aggregate levels of the market. By operating at a range of levels of market and market-segment, and by focusing on differential views on the relative performance of two markets, the potential for investors to hold differential views is greatly increased. This should aid liquidity.

As with other derivatives markets, holders of strong views can increase their exposure (“go long”). They can also “go short” and, by so doing, take a negative exposure to a market - something that is impossible in the direct property market.

Investors could come from any corner of the market. Hedgers, concerned about current exposures in their funds, can use PTRS to de-risk their portfolios. These investors may be deliberate specialists in one part of the property market, exploiting their skills to full advantage but hedging out the market risks engendered through their specialisation, or they may be “enforced specialists” who by dint of size or geographical sphere of operation, find themselves constrained to working in only a proportion of the overall market, but desire access to the whole market. In a similar way, corporates with a lot of property on their books by default may wish to hedge their enforced property exposure through PTRS.

The other factor that could help launch a PTRS market is the desire to actively but efficiently manage property portfolios in an environment of high transaction costs. Recent rises in Stamp Duty must, ultimately, reduce liquidity in the property market and make the optimal management of property portfolios more difficult. PTRS obviate the need for transacting in the direct market to effect structural change in portfolios.

WHAT IS NEEDED TO MAKE A PTRS MARKET OPERATIONAL?

It goes without saying that a PTRS market will flourish in direct relationship to the number of participants it can attract. For the above

reasons, we believe that a PTRS market will prove attractive to a wide range of investors.

The market will need to develop a satisfactory form of contract based on trusted and secure indices. Given that PTRS are straightforward agreements to pay and receive payments based on property and other indices, they are intrinsically no different from any other form of swap and can therefore be covered by the agreements designed and accepted by the International Swaps Dealers Association (ISDA).

In terms of indices upon which to base these contracts, the UK is blessed by some of the best property indices in the World. Our current thinking is that contracts, of one, two and three year duration, based on the IPD Annual Index standing investment returns, at market, sector and market-segment level, would be both representative of underlying assets and of most use to investors. However, in the short term, it may be the IPD Monthly Index that offers the greatest potential.

Finally, there will be a need for satisfactory trading mechanism. Here too, swaps are flexible. In the infancy of a swaps market, there may be a tendency for over-the-counter, one-off deals between principals, with or without intermediaries. However, our preference and ambition in years to come would be for market makers to establish themselves, allowing investors increased confidentiality in their strategies and intentions when dealing.

In conclusion, we believe that PTRS fulfil many of the requirements of those searching for a more liquid and active commercial property market. The concept is simple in nature and cheap to operationalise. PTRS relate clearly to the observable needs of investors to pursue the views they hold or hedge risk in their funds. They are also highly flexible in terms of what they offer the fund manager.

In promoting this idea we are very conscious that the emergence of something like a PTRS market raises many challenges and issues for the property industry. As with the derivatives that have gone before, education, regulation and issues of admissibility are clearly crucial issues to be dealt with. To this end, we would like to see the establishment of a Property Derivatives Users Association, possibly based on a revived REIMs group, to ensure that these issues are addressed by the wider property community. ■



HEDGING OUTSIDE THE BOX

FALLING PROPERTY PRICES HAVE ERODED THE DEVELOPERS' PROFIT MARGIN. ARE THERE ANY ANTIDOTES?

Jim Yip, AHKIS, MRICS, Senior Property Analyst, Asia Financial Securities Ltd.



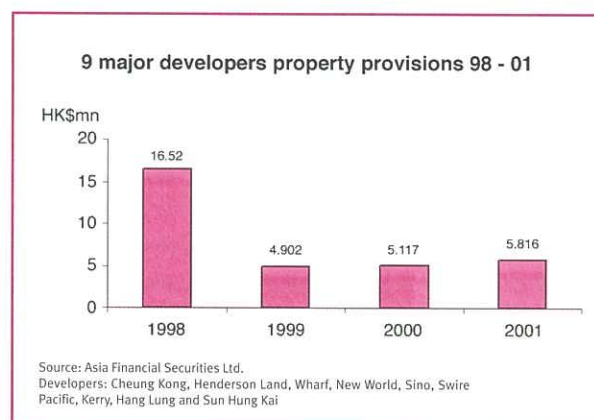
GOLDEN HANDSHAKE OR GOLDEN HANDCUFFS?

From a brand new Mercedes-Benz car to hefty cash rebates, homebuyers these days can almost walk away with these fabulous prizes upon signing a sales contract, even before a cent goes into the developer's pocket. Every weekend at the sales pitch new incentives await them.

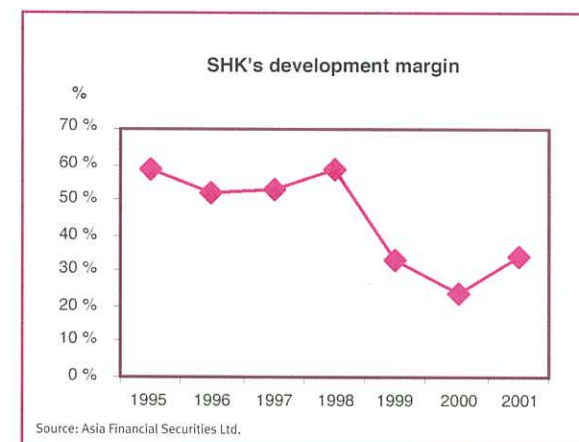
Property sales have become a highly competitive business, as the market is still wrecked by supply overhang and weak sentiments. To lure buyers, developers put in ever tempting price packages and some maverick marketing gimmicks. At one pre-launch press briefing last year, one sales director of a big developer was seen wearing a hat with a teddy bear on top. He called it a "teddy bull" and declared the bull has come to the property market.

The experience of viewing the show flats these days is like going into a carnival; arts gallery; fashion show or beauty pageant contest...only that the bizarre street brawls by the estate agents spoil the fun and remind us that the market is somewhat ferocious.

Some 70,000 homeowners who had entered into the market in the past 5 years may rule the day they bought the properties. Their properties have since fallen in values. The sad tales of our new owners have sapped the already fragile sentiments. Leery buyers have been on the sideline, despite repeatedly upbeat statements from the big property bosses and government officials.



Developers can hardly remain unscathed in this market downturn. For one thing, property giants have been hit badly, as witnessed in their property provision figures reported in the past five years. Bellwether property developer, Sun Hung Kai Properties, has seen a sharp drop in its profit margin on property development from 59% in 1995 to 34% in 2001.



LOOKING FOR A GOLDEN PARACHUTE

Today's homebuyers are concerned more with the market risk on capital deflation, rather than on inflation. But no one has the critical ball to tell how the future price trend will go. Sales incentive schemes providing price guarantee against drop in values will be mostly desired by homebuyers.

But no developer is willing to offer that plan, as the inherent liabilities are huge. Developers have no other alternatives to hedge the exposure. For the same reason insurance companies do not enter into the market either.

A couple of years ago when market confidence towards property hit the lowest ebb in the throes of the Asia Financial Crisis, there were several attempts by developers to offer in their developments price guarantee schemes, something akin to issuing a "Put" option in the financial market.

Maywood Court in Kingswood Villas, Tin Shui Wai and Metro City, Tseung Kwun O, were two projects pioneering on this concept. Although they varied in their applications (the former guaranteed a payback to owners if the property value was not higher than the price after certain years; the latter compensated buyers if the value was lower), the cash guarantee or compensation by the developers was limited to around 10% of the property price. With an upfront premium paid by owners opting for the scheme, the actual payout was lower. According to one market analyst, responses for these two schemes were not well received.

"Apparently, buyers perceived that the risk premiums the developers were charging were too high, and there was no secondary market of the option itself so that they could sell in the interim," explains **Dr. Y.H. Chiang**, associate professor of the Department of Building and Real Estate, Hong Kong Polytechnic University.

APPLE AND ORANGE

Compared with other asset classes such as stocks and bonds, the real estate market has lagged much behind in its development in derivatives trading. Apart from being as an alternative investment vehicle, derivatives are widely used for hedging purpose. A stock investment fund can mitigate the loss in value of its investment portfolio over the short-term volatility by "shorting" shares or selling futures.

Before 31 July 2001, property owners had an indirect approach to hedge the fall in home price by selling the Hang Seng Property Sub-Index (PSI) futures. The Hang Seng Property Sub-Index was a benchmark of the share price performance of property companies. Due to dismal liquidity, the trading of PSI futures and options were suspended less than two years after its reintroduction.

"Unless there are a large trading volume, no derivatives market would succeed," says **Professor Andrew Baum** from the University of Reading.

Besides the liquidity concern, the application of this hedging approach was fraught with problems such as the short maturity date of the derivative contracts and the expensive roll-over cost. However, its

biggest drawback was its poor correlation with the underlying property market, which rendered it an imperfect hedger.

“With regard to the property derivatives market, it is yet to become fully-fledged. In the stock market, what we can hedge now is the risk of indirect property investment, i.e. the developers’ stocks,” says Dr. Chiang. “However, many studies done in the past and now, have consistently shown that there has been little correlation, if any at all, between direct and indirect property investment.”

“Though fund managers in Hong Kong have regarded property stocks as surrogate of property investment, historical records tell us that they are anything but,” he adds.

“As far as the property derivative idea is concerned, my view is that one must consider such ideas by looking at the more advanced financial markets such as New York or London, because they have much better breadth and width in terms of trading and transaction volume. If the property derivative idea has not developed satisfactorily in these markets, the chance of them being successful here in Hong Kong does not look promising,” says **David Wong**, CEO of FPDSavills.

However, in recent years new derivatives instruments have been developed in some sectors. Their applications may show the light for the way forward for property derivatives.

WEATHERING THE STORM: CASE STUDY ON WEATHER DERIVATIVES

Since its first contract in 1997 by Enron, the weather derivatives market has mushroomed in US. According to Weather Risk Advisory Ltd., the market is expected to grow to at least US\$300bn within a few years. This bullish estimate was of course done before the debacle of energy trader Enron.

While its development could be slowed in its aftermath, the weather derivatives business remains intact. Kansas-based Aquila Energy becomes the latest rising star in weather derivatives trading as it is aggressively grabbing market shares left over by Enron.

A weather derivative is a financing instrument hedging instrument based on the measurement of weather parameters such as temperature, rainfall, wind speed and snowfall at one or more specified reference locations.

Energy companies have large exposures to weather risk: an unexpectedly cold winter may drive up costs of natural gas for electric utilities, while an unexpectedly mild winter might cut demand for winter fuels like fuel oil or heating, dramatically reducing profits for those oil majors selling these products.

While weather patterns remain beyond human control, companies are now paying more attention to the correlation between their balance sheet, weather changes and energy prices. An increasing number are using weather derivatives as a financial instrument to manage risks associated with changes in weather.

A large presence of entities with offsetting weather exposures has contributed to a robust market for weather risk mitigation. Real estate investment trusts in the US market with large commercial property holdings are also considering to use weather contracts to mitigate the risk of rising energy cost in the event of unseasonably hot summer.

Deregulation of the energy sector was considered the primary driver of energy companies’ increased awareness of - and steps to mitigate - weather risks. Utilities, unfamiliar with normal cost controls, which are facing unregulated fuel and electricity prices, also anticipate the appearance of competitors appealing to their previously off-limits customer base. Controlling the cost of weather uncertainty may very well be a major tool for utilities to hold onto their customers.

The proliferation of weather derivatives has transformed the traditional business model of utilities companies. They not only build power plants and sell electricity, but they also sell financial instruments. Some forward-looking and aggressive utilities have used this innovative and less capital intensive approach to gain market shares and break into the market once tightly held by the big players.

Property price movement can be as unpredictable as the weather. If the market condition changes adversely, developers face the risk of lower-than-expected sales price, then erosion in profit margin and earnings. Developers need to seek more active approaches to limit the effect of price volatility to their revenues and balance sheet.

TRANSFERRING THE RISKS: CASE STUDY ON CREDIT DERIVATIVES

The innovative drive in the banking sector has seen a stream of new products and financial techniques being developed in recent years. Credit derivatives, almost unknown two years ago, have now grown into a multi-billion-dollar market.

Deal structure for a credit derivative is quite complex and admittedly difficult to understand. The most common use of credit derivatives in Asia is in the form of synthetic securitisation in which a credit default swap is provided.

In the local residential mortgage loan market, banks sell their mortgage portfolio to the Hong Kong Mortgage Corporation, which then repackages the loan into a bond and then sell it to other financial institutions such as foreign funds and insurance companies. The process is called asset-backed securitisation and the underlying asset is backed by the monthly mortgage payments from thousands of homeowners.

In some instances, banks may not securitise their loan portfolio in a normal way. The other approach is the synthetic securitisation. The first public synthetic securitisation in Asia, outside Japan and Australia, was done by ABN AMRO Bank in late 2000. Using credit derivatives technique, the bank synthetically spun off a selected mortgage portfolio worth HK\$1.26bn. Although the loan theoretically remains within the bank’s balance sheet, through a credit default swap, the default risk of the loan portfolio has been transferred to other investors, which is the cleverest device in this innovative financial instrument.

There is an opportunity of using credit derivatives technique in property loan, says one senior banker. “Interest rate is so low and property loans to developers have become almost profitless to banks. But banks would not refuse lending because of the long-term relationship with the developers. Using credit derivatives, they offload these low-margin property loans,” he says.

The low interest rate environment and the stagnation in the loan market due to a slowdown in economic activity have helped fuel the growth of credit derivatives. Banks engineered these deals to generate additional source of incomes and free up capital to develop new products. Foreign investors buy credit derivatives because they want exposure to the Asian market.

Some of the development projects are undervalued, which may be new opportunities for banks to structure a deal that links up the potential upswing of the asset price through convertibles, another creative way to enhance the returns of the property loans.

UK EXPERIENCE: SYNTHETIC PROPERTY AND PROPERTY DERIVATIVES

The UK property market has been more advanced in developing indirect property investment vehicles to attract investors and overseas property

funds. Using these instruments investors can have additional flexibilities to increase or decrease their portfolio weighting to the property market and manage risks.

Essentially there are two methods of indirect property investment - pooled funds and derivatives (or synthetic instruments). The critical difference between the two alternatives is that pooled fund returns are derived from a specific portfolio comprising direct property investments, whereas the returns from derivatives and synthetic instruments are based upon the performance of the Investment Property Databank (IPD) Annual Index, which measures both capital and income returns arising from the direct property market.

To date the only synthetic instrument is Barclays Property Index Certificates (PICs) which were devised by Barclays, a subsidiary of Aberdeen Property Investors, in 1994 and are listed on the London Stock Exchange. PICs have bond-like characteristics, and pay investors the capital and income returns according to the IPD Annual Index.

Launched in November 1996, Property Index Forwards (PIFs) provide investors with liquid property derivative instruments. They are structured as over-the-counter (OTC) derivative contracts, providing investors with capital only exposure to the performance of the IPD/IPF Annual Capital Growth Index.

"With our two index-based products, it is now possible for investors to instantaneously establish both long and short positions in property. This puts property on a par with competing investment asset classes in terms of their flexibility and use," says **Charles Weeks**, a chartered surveyor and director of Barclays Property Investment.

No market has any hope of developing a hedging instrument without a credible index for benchmarking. The creation of the UK's Investment

Property Databank Index has played a crucial role in Barclays' creation of the only hedging instrument for direct property, which exists anywhere in the world.

IPD is an independent organisation, which calculates returns and reports on the UK property market. However, the biggest drawback with the IPD index is that it is not transaction-based. Most of its data are valuers' appraisals, which may or may not reflect true market values. On this score, Hong Kong has a more advanced development, because property transactions here must be registered and disclosed.

Barclays Property Investments are aware that there are opportunities to create alternative investment vehicles in other overseas markets that have a robust and acceptable property market index on which to base returns.

WOULD REAL ESTATE FINANCE BE A NEXT BIG JOB OPPORTUNITY FOR SURVEYORS

When it comes to finance, property professionals tend to rely on accountants or investment bankers to do the jobs.

Property developers traditionally raise finance by tapping the banking and capital market where the borrowers' bottom line performance and annual accounts are the keys to the bank's vaults and investor's pockets. Surveyors have no specific roles in these transactions apart from undertaking the asset valuations.

In recent years, we have seen a rapid development in unconventional fund raising vehicles. Commercial Mortgaged Backed Securities (CMBS) are the notable examples. CMBS uses a commercial property's underlying rental income, instead of the corporate' balance sheet, as collateral. The shift places more emphasis on the understanding of the property and the market where surveyors' expertise can come into a bigger play.

The lumpiness and illiquidity of property discourages foreign investors into direct property investment in the local market. They may invest in the developer's stocks for exposure to local property market. However, property shares are simply not a proxy for the underlying real estate market.

More diversified indirect property approaches are needed. Pooled property vehicles such as Real Estate Investment Trusts (REITS) may provide choices for foreign investors who wish to enter into the Hong Kong property and create new job opportunities for property professionals. However, its development is impeded by the Securities and Futures Commission's (SFC) current rule that listed direct property trusts are not allowed.


Another form of indirect property solution - synthetic instruments - has been developed in the UK market. Synthetic instruments provide a passive index-based exposure to the UK commercial property market, as opposed to owning either direct property or managed property unit trusts. The property-indexed products also include forward contracts which provide a hedging instrument against capital deflation.

"We are reaching an exciting time in the UK in this area. I think the development of IPD indices in a number of European countries offers the opportunity for the idea to grow there. The Australians are interested. Derivatives are a clear manifestation of the maturation of any market and its time has come for property," says **Paul McNamara**, Head of Research of Prudential Property Investment Management Ltd.

Hong Kong has yet to develop a 'real' property derivatives market. Despite having the most expensive properties in the world, our real estate market structure is very primitive. And there is a long way for us to emulate the other markets, which ironically include the PRC market.

The HKIS Junior Organisation recognizes a need for surveyors to equip with new knowledge in real estate finance and understanding of the

global investment trend. The first ever two-day JO conference on International Real Estate Investment will be held in late August. Our principal speakers include **Andrew Baum**, professor of University of Reading and former Chief Investment Officer of Henderson (a UK property fund), and **David Hartzell**, professor of University of North Carolina - Chapel Hill and former vice president, real estate and bond market research, Salomon Brothers Inc. (Please check the course program attached)

Send your comments to jimyiphk@yahoo.com 

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CLOSER LINKS WITH THE PEARL RIVER DELTA REGION - VISION OF HONG KONG



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INTRODUCTION

The Pearl River Delta Region, a place known for its economical miracle, has made a remarkable economic contribution to the Guangdong Province over the past two decades. It is also well known for its conspicuous economic contribution to the PRC. The prosperity of the Region is continuing to be the driving force of the economies of Guangdong Province and the PRC as a whole.

Geographically, Hong Kong is in close proximity to the Pearl River Delta Region and has a long standing history of relationship with this Region. It serves as a window for foreign companies for their development in the Region and the Delta itself serves as a hinterland to Hong Kong. Hong Kong is very much an integral part of the Pearl River Delta of the Mainland China. As the economies of the Region speed up, the integration of Hong Kong must be seen as a natural process that Hong Kong should embrace.

The aim of this article is to provide a broad overview of the development and vision of Hong Kong in the wider regional context of the Pearl River Delta Region.

MIRACLE OF THE PEARL RIVER DELTA REGION

The Pearl River Delta is broadly triangular in shape, extending down both sides of the Pearl River estuary with the provincial capital of Guangzhou at its northern apex, the Special Economic Zone (SEZ) of



Shenzhen at its south-east corner, and the Zhuhai SEZ at its south-west corner. The Region includes eight municipalities, namely Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou and Jiangmen. The area of the Pearl River Delta is approximately 42,000km² which is equivalent to 25% of the whole Guangdong Province.

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The development of the Pearl River Delta Region started in 1978 with the adoption of the Open Door Policy. The economies have developed so well since then because of the privileges of its strategic geographical location and the low cost but hard working labour resources. The economic activities and trade are thriving. Businessmen from various parts of the country and the world gather here to do business.

The Pearl River Delta Region has developed as one of the most significant economic areas of the PRC. It has an important role in the economy for both the Guangdong Province and the PRC as a whole. In 2000, the Gross Domestic Product (GDP) of the Pearl River Delta Region was recorded at US\$89.2 billion, contributing approximately 78% of GDP for the Guangdong Province. The GDP and the exports of the Region have ranked ahead of the Beijing Municipality and Shanghai Municipality, the two other most important economic driving forces of the PRC.

Compared with the figures of Hong Kong, the GDP of the Pearl River Delta Region is only half of what Hong Kong had recorded at US\$163 billion. The per capita GDP of the Pearl River Delta Region is only one tenth of that of Hong Kong at US\$24,100. However, attention should be paid on the rapid growth rate of the GDP of the Pearl River Delta Region. The Pearl River Delta Region had recorded the highest growth rate of 13.9% from 1999 to 2000 compared with other regions or cities in the PRC.

Taking advantage of the accession to the World Trade Organization (WTO), the Region has put forward a magnificent target to develop as an international metropolitan center. It has engaged in strengthening its connection with foreign countries for its economic development.

	GDP (US\$bn) ¹	% GDP Growth (in real terms) ²	Per Capita GDP (US\$) ¹	Population (mn) ¹	Exports (US\$bn) ¹
Pearl River Delta	89.2	13.9%	2,179.3	39.4	85.9
Guangdong Province	115.0	10.5%	1,330.9	86.4	93.4
Beijing Municipality	26.3	11.0%	2,156.4	13.8	7.6
Shanghai Municipality	55.0	10.8%	4,183.8	16.7	24.6
Hong Kong	163.0	10.5%	24,100.0	6.8	203.0

Notes

1. 2000 figures

2. Percentage growth from 1999 to 2000

EXPECTED ACHIEVEMENTS OF THE PEARL RIVER DELTA REGION

Starting with the 21st Century, the PRC Government announced the 10th Five-Year Plan (2001-2005) setting out the major objectives as follows:-

- To maintain a relatively rapid speed for economic development, further economic restructuring and improve economic growth, quality and efficiency.
- To build up a modern corporate system in State-owned enterprises and establish a sound social security system.

- To increase employment opportunities and improve the living standard of residents in urban and rural areas, while continuing to strengthen protection of the environment.
- To speed up the development of science, technology and education in an effort to further improve the quality of people's lives.

In order to achieve these objectives, the Guangdong Province had already committed itself to develop the Province, especially the Pearl River Delta Region to a more prosperous region by launching and reinforcing the major infrastructure. During the "five years", the expected and planned achievements have been launched in various aspects.

Railway Development

Feasibility studies for the construction of high speed light rail network, connecting major cities in the Pearl River Delta Region have been conducted by both foreign and domestic consultant companies. According to the Provincial Commission of Development Planning, the top priority of the project includes two light rail networks - the Guangzhou Airport Light Rail Line and Guangzhou-Foshan-Shunde-Panyu Light Rail Line which will start before 2005.

The province had also negotiated with the Governments in Hong Kong and Macao special administrative regions (SARs) to eventually link Guangdong's metro and light rail networks to the transportation systems in the two SARs, furthering economic ties among the cities in the South China region.

Highway Development

The Guangdong authorities have carried out preliminary work for construction of a bridge across the mouth of the Pearl River that would link Zhuhai Special Economic Zone with Hong Kong SAR.

Airport Development

An equally ambitious project slated during the Five-Year Plan is the new Guangzhou Baiyun International Airport, which "will be the best

airport in Asia". Expected to involve investments of 19.6 billion RBM (US\$2.4 billion), the airport will be built to the standard of an international hub to handle 25 million passengers a year by 2010.

IMPLICATIONS TO HONG KONG

All the expected achievements seem to create a favourable environment for the business and economic growth in the Region. With similar infrastructure, they seem to create a keen competition to Hong Kong as a regional business hub. What are the implications of these? Shall Hong Kong start to compete or co-operate with the Region?

In our opinion, we believe both Hong Kong and the Region possess some common and unique qualities that they could share with each other. A closer link of Hong Kong with the Pearl River Delta Region is definitely a trend for the future development and it's integration with the Pearl River Delta is a natural process that we should not resist, but rather we should embrace. Hong Kong's future development hinges on the economic growth momentum in China's Mainland, and enhancing co-operation with the Pearl River Delta is of particular importance.

We agree with some of the HKSAR Government Officials. The Chief Executive Tung Chee Hwa said during his speech at the 140th anniversary celebration of the Hong Kong General Chamber of Commerce in 2001¹:

"We should be confident of Hong Kong's strategic location and our role as a conduit to the outside world for Southern China. We should understand that the faster the cities and townships in the Pearl River Delta grow, the more trade they will generate through Hong Kong. The more wealthy the people in the Pearl River Delta become, the more demand for consumer goods and services they will create for Hong Kong..... and the more prosperous the Pearl River Delta is, the more opportunities for Hong Kong businesses to invest in the area."

¹ Speech by the Chief Executive at the 140th Anniversary celebration of the Hong Kong General Chamber of Commerce

The Financial Secretary, Antony K. C. Leung, called on overseas investors to make use of the manufacturing capability of the Pearl River Delta Region when investing in China, when he attended as one of the discussion leaders of the World Economic Forum in New York in February 2002.

“When people are investing in China, they should look at the Pearl River Delta as well as Shanghai and Yangtze River area. In fact, the Pearl River Delta area is already a very mature economy... As for Hong Kong, it has very good infrastructural strengths. Together, with its service industry we would be able to provide a very good complementary support for overseas investors who would like to make use of the manufacturing capability of the Pearl River Delta Area,” he added.

SHORT AND MEDIUM TERM STRATEGY - HONG KONG FORM COMPLEMENT TO PEARL RIVER DELTA REGION'S GROWTH

Hong Kong is recognized internationally as one of the world's freest economies since we have a robust legal system, stringent market regulatory system and comprehensive infrastructures. In short and medium term, Hong Kong could continue to take these advantages and to consolidate and enhance Hong Kong's position as an international center for finance, trade, transport and logistics, as well as a premier tourist destination.

BUSINESS CENTRE OF THE REGION

Hong Kong has a unique position, with the Mainland as our hinterland and extensive links to all corners of the globe. Though the global economy is generally slowing, China distinguishes itself with continuous economic growth. This creates new business opportunities for us and provides the impetus for Hong Kong's continued development.

Seizing the advantage, the HKSAR Government has decided to set up an economic and trade office in Guangzhou to strengthen business liaison between Hong Kong and Guangdong, and to help the business relationship between Hong Kong and the Pearl River Delta Region.

LOGISTICS CENTER

Hong Kong has excellent transportation and infrastructural facilities while the Pearl River Delta Region commands remarkably high productivity. We could develop Hong Kong into a logistics hub to link the Mainland China with the world.

By promoting comprehensive development and far reaching supporting facilities, we could speed up the flow of goods and information in the Region. The provision of integrated services will also strengthen Hong Kong's competitive advantage as a supply-chain base.

TOURISM

The number of Mainland travellers has accounted for approximately 30% of the total number of inbound visitors in Hong Kong. Such large number of increasingly affluent Mainland residents constitute an important source of visitors yet to be fully catered for by our tourism industry.

The Hong Kong SAR Government had reached an agreement with the National Tourism Administration for the abolition of the quota system for the Hong Kong Group Tour Scheme, which allows an increasing number of Mainland travel agencies organizing tours to Hong Kong.

INFRASTRUCTURAL DEVELOPMENT

The Government and the two local railway corporations have planned to invest a tremendous amount of investment in the development of infrastructure in Hong Kong so as to maintain its status as a regional transportation and business hub.

Furthermore, the development of major infrastructure would strengthen the economic co-operation with the Pearl River Delta Region. The Government and the Guangdong Province Government have discussed and mutually agreed on several issues including the Shenzhen-Hong Kong Western Corridor, the extension of facilities in Lok Ma Chau crossing and the improvement of soft infrastructure and facilities in Lo Wu control point. Consultation and discussion for an express rail service between Hong Kong, Shenzhen and Guangzhou is also in progress. The Mainland China section of the link has already been planned.

LONG TERM DEVELOPMENT STRATEGY

After the accession of WTO, the economies of the Pearl River Delta Region will speed up to the fastest pace they have ever known. The environment is getting more exciting. To cope with the ever changing economic environment, long term planning above all is the key. A good long term strategy serves as a compass showing the direction for the macro development.

In our opinion, we believe that in formulating the long term strategy for the future development of Hong Kong, the issue of the relationship with the Pearl River Delta Region is equally important as Hong Kong's own identity.

• Vision and Role of Hong Kong

We understand the need and implications of planning for Hong Kong so as to cope with the rapid development and the closer links with the Pearl River Delta Region. Yet, what is the role of Hong Kong? More important, under the current economic situation, what is the vision, or more practical, what is the strategy for Hong Kong to maintain the sustainable development in the long term?

• Coordinated Development with the Pearl River Delta Region

As addressed, the trend of co-operation between Hong Kong and the Pearl River Delta Region is going to be a natural process. Infrastructure in the Region and Hong Kong seem to be duplicated and create a competition. How can the Government fully utilize the resources in both places and give a prosperous future?

• Hong Kong's Own Identity

Hong Kong has a unique history. It is an international city where East meets West. We are all proud of this achievement, which gives Hong Kong the advantages to serve as a window of Mainland China. How can we maintain the uniqueness of Hong Kong?

A comprehensive long term strategy will help Hong Kong to find a path in the process of integration with the Pearl River Delta Region and will give Hong Kong a promising and encouraging future under the current economic situation.

CONCLUSION

Many opportunities for cooperation and collaboration between Hong Kong and the Pearl River Delta Region have been realized. The areas that we find to offer great potential are financial services, retail and distribution, import and export, professional services, transport and logistic services.

Taking the advantages of its well-developed legal system and market regulatory system, Hong Kong will maintain its position as the business and infrastructure centre of the Region. To facilitate the integration with the Pearl River Delta Region and give a promising future development, it will be crucial to set up a long-term strategy for Hong Kong by realizing the vision and the development direction of Hong Kong. ■



SURVEYOR'S SURF

Stephen Chung, Zeppelin Real Estate Analysis Limited



Being a WWII hobbyist (or nut to be exact), the author had recently toured Normandy, France (where the Allied Landing took place on June 6, 1944 - D-Day). The tour was almost cancelled, if not for the fact that 3 other tourists, all Americans (1 elderly gentleman who had been in the Air Force and is now a real estate developer, plus a young couple of whom the husband had served in the Army), signed up also at the last moment. Even the French tour guide had served in the French legion and he gave up the standard tour introductions after he found out that we might know more about the battle than he did. Anyway, a must visit for enthusiasts but definitely a waste of time for the uninitiated. Of note are the City of Caen where there is a good museum and the US-sector beachhead codenamed "Omaha" where most of the casualties occurred on D-Day. The beach is really very long (that's why the Omaha landings were divided into numerous sectors such as Dog 1, Dog 2, or Dog Green etc to be assaulted by different companies, and think of all the planning, logistics and eventual chaos that went into them). And once beyond the sands, there stands this elevated cliff-like piece of ground, and a few well-placed machine guns would have pinned most attackers down. This was also the beach to which scenes from "The Longest Day" or more recently "Saving Private Ryan" related. The former makes war look like fun with John Wayne expressing his "itch to go (into battle)" while the latter is closer to reality. Pulling the safety pin of a grenade with your teeth, cool-looking though this may be, is one fine way to lose your teeth, and jumping up to shoot right after you have tossed a grenade, like many war movie heroes did, is another fine way to become a casualty. In any event, may peace endure.

In this issue, we have discovered the following websites and content that may help you survive in the business world:

<http://knowledge.wharton.upenn.edu/whatshot.cfm>

This article is published in the Wharton (Business) School of the University of Pennsylvania website (which the author had introduced in this column before) and is titled "Accounting High Jinks and Stock Prices" being inspired by the recent Enron debacle. Good reading to learn something about creative accounting and financing.

<http://knowledge.wharton.upenn.edu/articles.cfm?catid=9&articleid=523>

This is also an article from the Wharton School and features Dr. William Overholt, a Harvard PhD who had written a book titled 'The Rise of China'. He has headed up Asia research in the Nomura group. To those from the Hong Kong investment and financial community, Dr. Overholt is no stranger and is always able to attract a good crowd at seminars and business luncheons (the author had attended a couple of such occasions and irrespective of what you think of his views, his speeches are always entertaining and enlightening). This one focuses on China versus Japan. Overall, he seems more bullish on China than Japan.

<http://www.nytimes.com/2002/03/04/opinion/04GRAN.html?todayshdlines>

This article is published in the New York Times' website and deals with Wall Street and stock prices. It is easy to read and interesting. Basically, the author is saying stock prices are too high, contrary to what most commentators are saying, and speculates on the reasons why. Nonetheless, the fun part is the comparison of Wall Street to Wal-Mart.

<http://www.jhancockrealestate.com/reig/research.html>

This is the website of John Hancock Real Estate and features a few research articles of theirs. Current ones deal with their observations and analyses on debt investment vehicles such as Commercial Mortgage Backed Securities, and compare these with other investment products such as corporate bonds etc.

<http://www.investinginbonds.com/info/igmbs/what.htm>

This site connects to knowledge and information on mortgage securities and is efficiently laid out. Also, most of the articles are easy to read and comprehend, and should be a good resource for academics and students in particular.


<http://www.propertydisposal.gsa.gov/property/>

This website belongs to the Office of Property Disposal of the United States General Services Administration. In short a government property disposal website. You can bid for federal / government properties via sealed bids or auctions, and the latter may be conducted via mail, the web or a standard traditional auction. The Office helps in getting rid of surplus federal properties in a competitive environment.

<http://www.asiagolfnet.com/eng/statistics.asp>

Golf is becoming popular especially among some of our members. A few have even suggested the author to include some golfing websites for reference. Hence, for starters, the author has come across this one giving you lists of (different) rankings. Besides this, the website offers a host of golf related content and services. A handy one for beginners.

Speaking of wars, your author looks forward to seeing another kind: the soon-to-be released Star Wars new movie sequel. For those not familiar with Star Wars, the first 3 Star Wars movies, the author's been told, actually deal with the middle chapters of the story. The last made (4th) sequel is Chapter 1 and now they are making Chapter 2 in the 5th movie, and this should tell us how Darth-Vader gets to become Darth-Vader (that guy in a black life-supporting shiny armor suit who 'terminates' subordinates who fail to deliver). Nonetheless, there is one thing that has always been a puzzle in all these Star Wars movies, and it runs contrary to what we had learnt in high school physics classes too (parents take note). How come the spaceships and their laser weapons can be "heard" in space? Aren't they supposed to be 'silent' = no medium e.g. such as air or water = thus no sound? Or does this have more to do with sound effects and thus in turn the effects on the box office? And with spaceships traveling at the speed of light, how come technologically the humans are still so backward? For instance, they still need to eat and drink (instead of efficiently absorbing energy around them, and eating / drinking [an input function] presumably requires a body 'output' function too, you know so cumbersome especially when you are traveling at the speed of light), talk in order to communicate with someone sitting right next to them (instead of beaming one's thoughts over), and walk to get from point A to point B (instead of floating around like David Copperfield)? Nonetheless, the author is not complaining and it would be a lot less fun to watch if the movies were all 'physically correct'. Even Stanley Kubrick's masterpiece '2001 Space Odyssey' uses the "Blue Danube" as background music in one of its space travel scenes. May the force be with you.

Send suggestions and comments to stephenchung@real-estate-tech.com 

Book Review

WESTERN ETIQUETTE

Written by Siao Fong Fong
ISBN 962-201-491-7

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The Chinese are fastidious with table manners in dining. Some of the protocol may be at odds with other cultures: never turn the fish over on its plate as it is considered a bad omen; in no circumstances should the chopsticks be spiked in a bowl of rice, again for superstitious reasons; don't talk with the mouth full, but make as much slurping noise as possible while drinking soup (what a compliment to the chef!).

Like the Chinese culture, the Western culture equally has a set of strict rules in eating.

Imagine participating in a big banquet like the HKIS annual dinner, have you ever wondered which butter knife should be used, the left hand one or the right hand one? Is the little spoon in front for serving soup? Or should you order white wine to go with your tenderloin steak?

In Hong Kong, a cosmopolitan city renowned for its unique East-Meets-West hype, we may go to dine at Western food outlets as often as we do in Chinese restaurants. A good knowledge in Western etiquette proves important. It enhances your professional image as well as brings in career success.

This month's recommended book "Western Etiquette" (in Chinese) by Siao Fong Fong may come in handy for those who desperately look for guidance to improve their social skills.


Besides table manners, this book goes to great lengths in describing the right approach for a handshake, eye contact and introducing people - rudiments of etiquette we could still overlook. For example, there are different approaches to introducing people depending on their gender, age and social status. It is embarrassing if we use the wrong one.

The book also gives away some useful tips on how to accept or decline invitations, select wines for different food, and start conversation with a stranger in a party. It suggests some high-risk topics to avoid, otherwise we may offend someone.

The dress code does not escape the author's attention. More than three chapters are dedicated to this topic, illustrating its significance in the author's view.

The car-sitting chapter interests me most. There was one time after a late night party when I offered to give my friends a lift home. They thanked me and went straight into the back seats, with the front seat left unoccupied. I puzzled whether if I had an offensive body odor. Perhaps they had mistaken me as somebody's chauffeur or a taxi driver. Anyhow, this book suggests a few car-sitting rules, which are useful reference for us.

Most of the modern etiquette and business protocol is covered in this book, except one key area: the use of cell phones in the public place. The latest version was written in 1997, perhaps, at that time the use of cell phones in the public place was not as prevalent as today. For your reference, an article - The New Rules of Etiquette for Cellphone Use - in *The Asian Wall Street Journal* on 17 September 2001 is considered useful.

This 192-page book is written by a local movie star - Siao Fong Fong, who has done a detailed research into various aspects of the Western etiquette. 

UPDATE OF GOVERNMENT PRACTICE NOTES

Department	Practice Note/Reference#	Description	Date	Home Page
Lands Dept.	Circular Memorandum no. 46	Relocation of the Sha Tin Office of legal Advisory and Conveyancing Office (LACO).	6 March 2002	www.info.gov.hk/landsd
	Practice Note No. 4/2002	Procedure for Land Sale under the Application System.	3 March 2002	
Works Bureau	Technical Circular No. 8/2002	Invitation for Expression of Interest.	28 March 2002	www.wb.gov.hk
	Technical Circular No. 12/2002	Specification Facilitating the Use of Recycled Aggregates.	27 March 2002	
	Technical Circular No. 11/2002	Control of Site Crushers.	27 March 2002	
	Technical Circular No. 9/2002	Technical Audits on Consultancy Agreements.	26 March 2002	
	Technical Circular No. 6/2002	Enhanced Specification for Site Cleanliness and Tidiness.	20 March 2002	
	Technical Circular No. 23/95A	Direct Employment of Resident Site Staff by Consultants.	20 March 2002	
	Technical Circular No. 7/2002	Tree Planting in Public Works.	6 March 2002	

Please note that the above Practice Notes can be downloaded from the corresponding home page.

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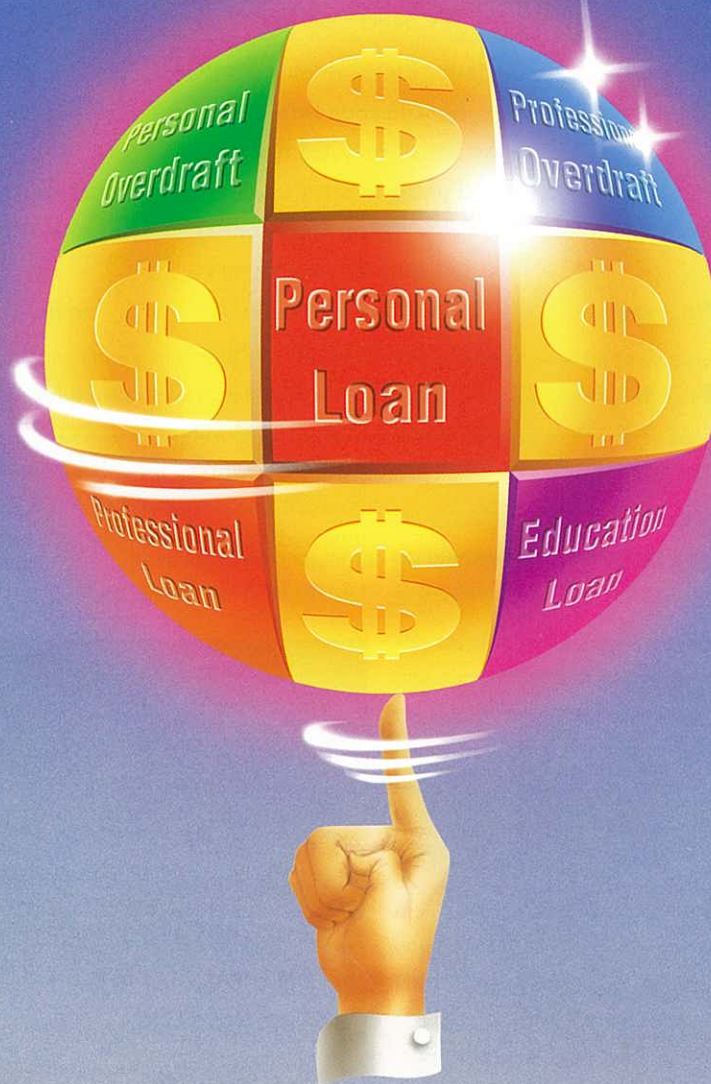
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