

# Surveying news

## Message from the President

### The following passage is the President's address given at the Surveyors Annual Dinner on 22 November 2002.

Mr Michael Suen, Honourable Guests, Fellow Members, Ladies and Gentlemen.  
Welcome to the HKIS Annual Dinner.

I am not going to bore you with facts and figures about the Institute, either because many of you are already very familiar with the Institute or you have access to our website to find out details at your leisure. Perhaps I will only mention that there is a steady growth in membership, which now stands at 3,280 corporate members.

Early in the year I was asked a couple of times by the media how the gloomy property market situation had affected the surveyors, and cited examples that many professionals of various disciplines had to look for alternative jobs not of their own background, such as salesmen, insurance agents and cooks. No doubt the number of new property developments have declined and the volume of property transactions has dropped. That must have certain undesirable effects on some of our members and their firms.

However, I would look at the situation from a broader perspective. The surveying profession provides a wide range of services around land and landed property. For example, mapping the terrain; demarcating the land parcel boundaries; valuating the land and property; taking bills of quantity advising on the building design; managing the building project; resolving disputes on construction work; maintaining and managing the completed building; leasing and selling of the property; and assessing the redevelopment potential. The whole development cycle goes on and on. So indeed there are plenty of opportunities to be explored and grasped.



CHAN Hak

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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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May I quote from Sir Charles Brickdale 1913, 'Land is the place of all shelter, in the city, the town, the village and the home. It is the source of food, of materials for construction and manufacture, of coal, gas and oil, of springs and rivers and other essentials for life. Indestructible, immovable, it is the foundation of all human activity. Houses and factories, forests and farms, rivers, roads and railways, mines, quarries and reservoirs are all fashioned from the land. It offers endless opportunities for development and discovery. It is the ultimate source of wealth.'

Particularly in Hong Kong, land is indeed very precious. Since the first auction of land in June 1842, strangely it was held in Macao, and until now, land has been disposed of by the Hong Kong government to meet the needs of the community. It is said the land and property market is the thermometer of the economy, and it is also the main pillar of the economy. But apart from the tangible and financial benefits of land development there are other more important, far-reaching and intangible issues that have to be addressed, such as, sustainability of the development and protection of the environment. We are to exploit but not to over exploit the land and certainly should not spoil or waste it. We surveyors will endeavour and collaborate with other allied professionals to make good use of this land of ours for the greater benefits of the community.

In order to continuously develop our professional knowledge and to promote our services to the community, the Institute has during the year organized several conferences locally and actively participated in events organized by other bodies, such as the Works Bureau, Home Affairs Department and Trade Development Council.

In the Mainland China, the Institute has also organized some conferences and actively participated in events organized by Hong Kong and Mainland bodies, in places like Beijing, Shanghai, Tsingdao, Nanjing, Dalian, Jilin, Guangzhou, and on contemporary topics such as financing the Olympic Games projects and exporting Hong Kong professional services. We have also established contact with several of our counterparts in the Mainland China at ministry level and professional institute level with a view to exchanging surveying knowledge, understanding more of each others' practicing environment and exploring mutual recognition. The Mainland China indeed has tremendous potential for us to export our expertise and services.

In the international scene, we have established linkage with many national and international organizations and increased participation in international activities, so as to keep us abreast with the latest surveying technology and standards worldwide. For example, we have become a Board member of the International Valuation Standards Committee, alongside with the Mainland counterpart. We have also applied to become a member of the newly founded World Association of Valuation Organisation. Another significant appearance in the surveying world is that Mr T N Wong, one of our members and past presidents, was elected as the Vice President of the International Federation of Surveyors (FIG), this is the first ever elected vice president and coming from the Asian region. Also in FIG, our member Mr Stephen Yip was elected as Chair of the Commission 9 responsible for Valuation and Management of Real Estate. We have successfully bid for the hosting of the 2007 FIG Working Week in Hong Kong. It is expected that many



Guest of Honour Mr Michael Suen, Secretary for Housing, Planning and Lands and President Mr Hak Chan



(from left to right)  
Mr T N Wong, Miss Winnie Shiu, Hon C Y Leung, President Mr Hak Chan and Mr Cai Wen Feng

surveyors from all over the world will come to Hong Kong for the event.

In the nearby region we have good contact with the surveying institutions, such as the Asean countries, Australia and New Zealand. I wish to announce that the Institute will hold the 7th South East Asian Survey Congress in Hong Kong in November 2003. We held the 2nd Congress in 1983, twenty years ago. It is expected that not only surveyors in this region will participate but many will also come from North America and Europe. Please note down this event in your diary and come to meet the surveyors from abroad.

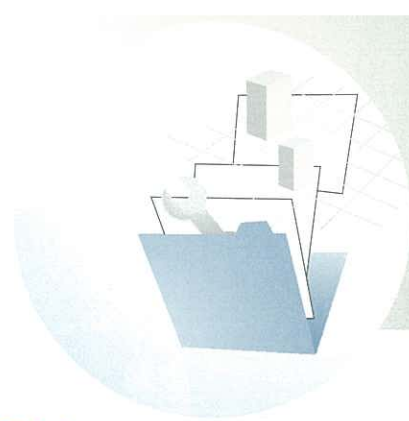
Finally, we Hong Kong Surveyors are committed to provide quality services to the community, and to make Hong Kong an ideal place to live, to study, to work, to enjoy and to visit. We will continue to work together with the government policy makers, and allied professionals to build a better and greener home for everyone in Hong Kong.

Thank you.

P.S. This is the last message during my term of office. I hope the messages I have given would serve as food for thought and stimulate ideas from the readers to further promote the Institute and the surveying profession in Hong Kong. I wish you all a prosperous and happy 2003.

# A VERY MERRY CHRISTMAS AND A HAPPY NEW YEAR

From the HKIS General Council and all the staff of the Secretariat Office



## Building Surveying Division

Raymond Chan, Chairman

### The Future of our Profession

I wrote an article (in Chinese) which was published in the special supplement for the HKIS Annual Dinner on 22 November 2002 in the Sing Tao Daily. To allow members who did not join the Annual Dinner know about the article, I have re-written it in English for members' reference.

#### “Changes for Building Surveyors in Hong Kong”

In the current economic climate, building surveyors will be facing a lot of potential changes and challenge. I have tried to analyse some of these and they are listed as follows:

##### Change in Working Environment

Traditionally, more than half of the building surveyors in Hong Kong work in the Government. Their fields of work include Building Control, Building Maintenance and Renovation, Project Management, etc.

Following the change in government policy, the current trend is towards a “small government” hierarchy. The number of civil servants will be trimmed down and public spending will also be reduced.

In the foreseeable future, more and more building surveyors (especially new entrants) will be working in commercial organizations. These changes will require some adjustment to cope with. In the future, building surveyors need to improve their skills on cost/benefit concern, efficiency, image building, market awareness, etc. At the same time while we are working hard to improve our professional standard, we may also need to build up our commercial sensitivity.

##### Change in Working Location

While we are admiring the economic development in the Mainland China, we also have to review our situation in Hong Kong.

We can simply start our analysis on the four “elements of production” as defined in economics. The four elements are

(1) natural resources, (2) labour resources, (3) capital and (4) management.

(a) Basically, Hong Kong does not possess any merit on “natural resources”.

(b) When compared with the Mainland China, we also cannot win on the “labour resources” aspect.

(c) After the collapse of the property market in Hong Kong, the “capital” possessed by the people of Hong Kong has reduced drastically. Many businessmen from Hong Kong can no longer afford to finance any new business.

(d) The only remaining “element” which Hong Kong has strength in is “management”. Of course, management includes professional services. We, the professionals, might have become the most valuable treasures possessed by Hong Kong.

Unfortunately, building surveyors provide their services for buildings and building projects. Unavoidably, we have to work in places where the buildings and building projects are located. On the whole, if Hong Kong has to export this commodity (professional service is also a commodity) to earn her living, we may have to leave here and work in the Mainland. Fellow professionals, are you ready for it yet?

##### Change in Fields of Works

I have mentioned briefly above some fields of works taken up by building surveyors.

Following the worldwide trend of “globalization”, we cannot confirm ourselves to conventional hierarchy, geographic boundaries, established tradition, etc.

We all know that different countries in this world have different modes of allocating scopes of specialism for various types of building & property professionals (e.g. the “building surveying” profession does not exist in the United States). In the evolution

of “globalisation”, we should be well prepared to receive it and the associated changes. We have to surf on this trend and make building surveyors winners in this trend. At least, we must not be the loser.

### Year 2002 Mainland and Hong Kong Conference “The Reform and Development of the Construction Industry” Nanjing - 21-23 October 2002

This conference was organized jointly by the Ministry of Construction (建設部) and The Environment, Transport and Works Bureau of HKSAR government.

This conference attracted more than 300 participants from all over China. Four building surveyors including Kenneth Chan, Alex Wong, Ben Chong and myself attended. Ben Chong and I submitted two papers on BS related topics for this conference. We met a lot of fellow professionals and officials there. We also brought with us some brochures of Building Surveyors and HKIS for distribution at the venue. This aroused many enquiries and discussion from many participants of different background. I feel that more works of this kind has to be done to promote our profession in the Mainland.



Conference in Nanjing

### Consultation by Government Departments

We have been consulted by various government departments on a variety of topics. Recently, we have been consulted by government departments to give our opinion on the following topics:

#### (a) Industrial Land Review 2002

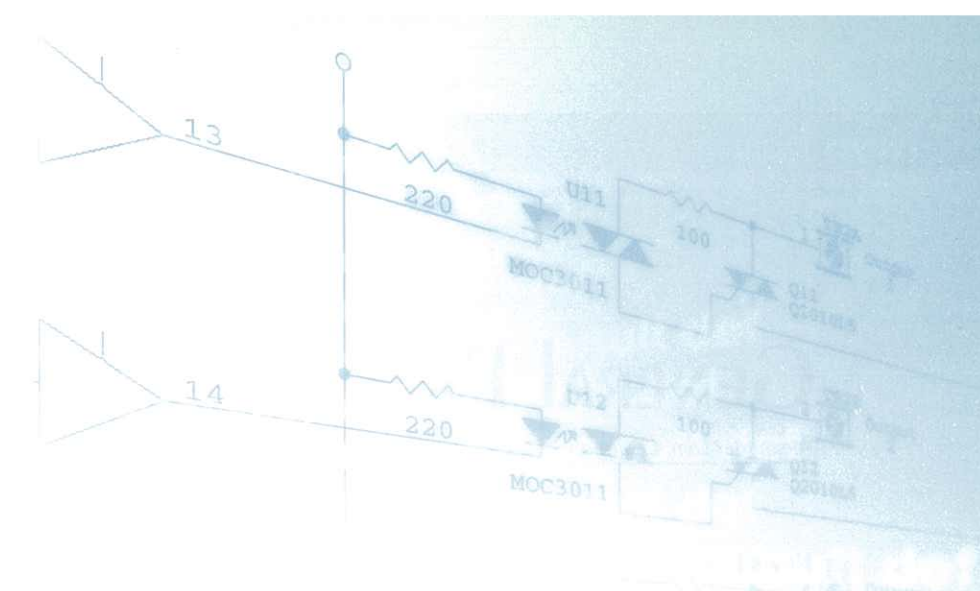
The Government wants to review her policy on the use of Industrial Land. We exchanged ideas with officials from the Planning Department on the ups and downs of various options. We viewed this matter from various angles including those of property owners, occupiers, workers, neighbours and the people in Hong Kong as a whole. I attended this meeting together with Mr S K Pang of GPD Council.

#### (b) Harbour Area Treatment Scheme

Mr Kenneth Chan and myself attended a meeting with an official from the Environmental Protection Department and their consultants to provide our comments on their proposals for the Harbour Area Treatment Scheme. They had four different options under consideration. We discussed with them to understand the rationale, the pros and cons for each proposal. We gave our opinions from the viewpoint of surveyors as well as the citizens of Hong Kong. We discussed concerns on cost-efficiency, the long term effects, room for expansion, etc.

We do not know whether our comments will eventually be accepted for implementation or not. Anyway, we have been consulted. If the Government chooses to proceed in other directions, it will need to have strong reasons.

Do you like to be consulted? Do you wish to share your wisdom for the benefit of Hong Kong? If the answer is yes, please contact me and I may arrange to allow you take part in these kinds of meetings. ☞



## GENERAL PRACTICE DIVISION

Alexander Lam, Chairman

### News from the International Committee

This year was a really busy year for the International Committee. Eight visits to Beijing, Shanghai, Guangzhou, Dalian and Shenzhen in the Mainland China as well as to the overseas such as London, Brussels and Kuala Lumpur were organised. Details of these visits had already been reported in the newsletter after each visit.

On 26 November 2002, your divisional representatives organised visits to the Australia Property Institute and the New Zealand Property Institute in Sydney and Wellington respectively.

The purpose of these visits were to foster closer ties between the two Institutes and HKIS as well as forming a united strategy to act and react in the international valuation organisations in which HKIS is a board member.

### Visit from the Appraisal Institute of the United States of America

On 11 October 2002, Mr Bill Endsley visited HKIS. It was the first time an appraisal organisation from North America visited our Institute. Hong Kong was the second leg after Beijing and before en route to Kuala Lumpur to attend the WAVO where we met again.

The Appraisal Institute explicitly expressed interest to enable members of the GP Division to apply to become their members through some educational courses. Communication with the Appraisal Institute is ongoing.



(from left to right)  
Alexander Lam, Bill Endsley, Mona Woo and K K Chiu

### APC Written Assessment

This year 156 candidates attended the written assessment, of which 69 were "first attempt" candidates. As part of the GP Division's policy to remove those more rigid and outdated rules and regulations in APC, valuation questions are no longer compulsory so that all candidates will have a much wider choice in selecting questions that fall within their areas of specialisation. Nevertheless, over 95% of the candidates attempted Question 1, which was valuation.

### Continuous Professional Development Program

The following programs have been arranged. You are reminded to attend as I can assure you that the talks are both informative and enlightening.

Date	Speaker	Events
12 Nov 2002	Mr Michael Price	Facility Management - the opportunity for surveyors
28 Nov 2002	Mr Tony Tsui	Marketing of Shopping Centres in China - Case Study: Shanghai Westgate Mall
10 Dec 2002	Mr Chi LO	The Weakest Link in Property Market
19 Dec 2002	Mr Raymond Liu	The Myth and Magic of Mortgage-backed Securities (MBS) - The process to convert real estate assets with low liquidity into financial assets with high liquidity and the benefits to real estate and capital markets
21 Jan 2003 (Tentative)	Mr Kenneth Pang	Past, Present and Future of Property Rates in Hong Kong

## LAND SURVEYING DIVISION

Wong Chung Hang, Chairman

### 土地測量的未來

土地測量不單只是經濟和社會發展的一項前期性和基礎性的工作，而且是一項持續性和恆久性的工作。

在現在土地業權條例草擬的階段中，土地測量師要積極籌備參與改革土地業權登記的工作。香港測量師學會認為，建議中的業權註冊制度，應該把土地界線圖列為註冊文件。該等土地界線圖應由認可土地測量師製備，以保障擁有土地和準備購買土地人仕之權利。

至於如何推動土地界線圖的登記，實有賴政府立例的取向和可投放在整頓土地界線記錄的資源。無論將來條例是明確地指出所有土地交易（不包括樓宇買賣）都要有土地界線圖來證明業權的大小和位置，抑或是由業主自行決定土地界線圖的登記，土地測量師的專業服務是不可缺少的。如果政府決定進一步整頓現時的土地界線記錄，相信土地測量師的貢獻將會是該項計劃成功的主要關鍵。

關鍵在土地測量師能否提升他們的專業層面，除了技術方面要徹底完成土地界線資料和證據的搜集工作外，要專注法理的要求和業主的權益。如果在沒有立例保障土地界線測量的成果下工作，土地測量師更加要公平正直地去重整土地界線記錄，遇到有爭論的時候，應該要用誠意去爭取有關方面對測量成果的同意。

當然，最好是有法定的程序去扶助所有土地界線測量的工作和得到有關團體的理解去支持土地界線記錄的重整。如果各方面都能積極考慮和合理推行改革，那香港就將離開一個健全的土地界線記錄制度不遠了。這是一個良好的機會，土地測量師無論是資深的或者是初入行的，私人執業的或者是在政府裏工作的，都應該準備好今後參與土地業權登記條例下的工作。

(Editorial Note: The above article "The Future of Land Surveying" was published in the Sing Tao Daily newspaper as the Message from the LSD Chairman in a special supplement for the HKIS Annual Dinner on Friday, 22 November 2002. Mr Wong Chung Hang pointed out how important the land surveyors' involvement is in the proposed land titles registration in Hong Kong. HKIS is of the view that land boundary plans should be prepared by authorized land surveyors and attached to any instruments effecting the transaction of land parcels. Land surveyors will also play a very significant role in rectifying the existing land boundary records. A legal framework should be in place to recognize the results of land boundary surveys. The land surveying discipline should be prepared to participate in work under the land titles registration system.)

## The LSD Annual Dinner 2002

The LSD Annual Dinner 2002 was successfully held on 25 October 2002 at Sheraton Hotel. Over 80 members and guest participated. This year we had a slide show to recap our memories from the past CPD Events, Technical Visits and Social Functions. During the dinner, our CPD event organizer, Mr KWOK Chi Wai gave us an impressive presentation on the recent technical visit to Shantou. Clips of TV news and some pictures of the visit were shown.

The LSD Chairman, Mr WONG Chung Hang would like to thank all the members of the LSD Annual Dinner Working Group for their contribution and hard work.

Once again, thank you so much for your support and I look forward to seeing you in coming events. ☑



Toast from LSD Council Members



(from left to right)  
Mrs S C Leung, Mr S C Leung (HKIS Past President), Hon P C Lau and LSD Chairman Mr Wong Chung Hang



Shoot for the Dinner

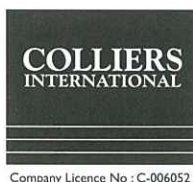
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## News from the Divisions

# QUANTITY SURVEYING DIVISION

Nelson Cheng, Chairman

### PAQS Congress 2003, Tokyo, Japan

The 7th Pacific Association of Quantity Surveyors (PAQS) Board Meeting is going to be held on 23 June 2003 in Tokyo, Japan, followed by the PAQS Congress 2003 in Tokyo (24-27 June 2003). The organizing committee of the PAQS Congress 2003 is calling for papers with an abstract deadline of 31 December 2002. The theme of the Congress is "Opportunities and Mutual Interchange". Interested members please forward their abstract directly to the Building Surveyors' Institute of Japan (BSIJ). Although the Congress is held in Japan, the language for the paper is English for overseas participants.

You may wish to check the website <http://www.bsij.or.jp> for an Abstract Form and return the abstract by 31 December 2002 or earlier. (For enquiries about submission of abstract of papers, HKIS members may contact Ms Margaret Yung, HKIS office at 2526 3679 or email [paqs@hkis.org.hk](mailto:paqs@hkis.org.hk)) If you have any queries about the Congress, please contact the Conference Secretariat via e-mail: [info@bsij.or.jp](mailto:info@bsij.or.jp) to Mr Yasuhiko Nagakura, BSIJ President, the 7th PAQS Congress Chairman, or via e-mail: [murayama@bsij.or.jp](mailto:murayama@bsij.or.jp) to Ms Tomoko Murayama, the Secretary to the Conference Secretariat, the Building Surveyor Institute of Japan (BSIJ) at 3-16-12, Shiba, Minato-ku, Tokyo, Japan, Tel: 03-3453-9591, Fax 03-3453-9597.

The Hong Kong Institute of Surveyors (HKIS) presently hosts the secretariat office of PAQS and the PAQS Secretary Ms Ellen Lau can be contacted via e-mail [paqs@hkis.org.hk](mailto:paqs@hkis.org.hk)

### ICEC 4th World Congress 2004

The ICEC 4th World Congress 2004 is to be held in April 2004 in Cape Town, South Africa. The theme of the congress is "Value beyond Cost"

### Mainland matters

The next visit to Mainland China is tentatively scheduled to take place on 10 and 11 January 2003. The venue will be in Harbin where we shall be holding a technical seminar for CECA members. The next annual meeting with CECA is tentatively scheduled after the

Chinese New Year in Zhuhai. As you will recall, it has been announced in this Newsletter that our council member Tommy Yim was appointed as the honorary editor of the overseas section of the CECA quarterly publication. Mr Yim would welcome any contribution of articles from members who would like to express their views to the members of CECA in the Mainland China.

The CECA branch of Wuhan will be visiting HKIS on 28 November 2002.

### CPD

The last CPD event in this council year is:

25 Nov 2002	Introduction to Construction Arbitration Practice - Appointment of Arbitrator, Preliminary Meeting and Interlocutory Applications (Mr H F Leung)
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We have in total organized 14 CPD events this council year, thanks to the hard work of our CPD convenor Mr Honby Chan.

### 2002 APC

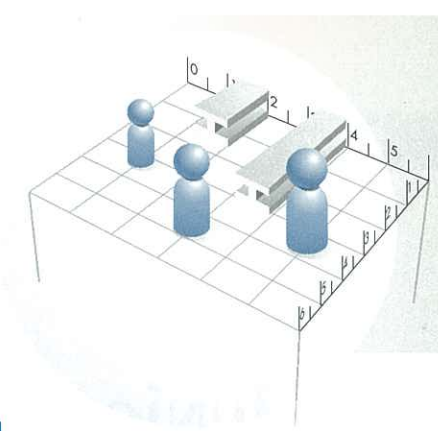
There were altogether 568 candidates attending the APC this year. It is expected that the interviews will be carried out in January 2003 with the results to be announced in February 2003.

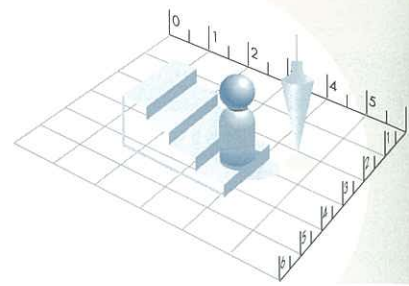
### The New Standard Form of Building Contract

The Joint Contracts Committee (JCC) would like to finalize the review of the 5th draft Main Contract by the end of November. The publication date of the four contracts (Main Contract - with and without quantities, nominated sub-contract and nominated supply contract) is likely to be in the 2nd quarter of 2003 and this will be subject to confirmation from the JCC.

### Proposed New Form of Contract for maintenance and repair works

In view of the increase in the numbers of building renovation and maintenance works, the QS Division are now working with the BS Division in compiling a New Standard Form of Contract for maintenance and repair works. ☑





# JUNIOR ORGANISATION

Jim Yip, Hon. Secretary

## A YEAR IN RETROSPECT: NOT A SMALL FEAT!

*In the worst time of property history, 2002 JO had the best time*

共同走過激情燃燒的02年

### A Year of Harvest

We had an astounding achievement this year: over 45 PQSL programs, 20 CPD events, 8 social events, 8 school visits and over 100 guests in our annual dinner party at Cyberport. Over 4,500 members benefited in a wealth of training programs we offered.

### A Year of Breakthroughs

Never been done before, we carried out our weekly PQSL programs non-stop at the HKIS office for the full year, all targeting the needs of our student members. We sent the largest contingent in our history to participate in the Stanley Bay Dragon Boat Competition. Knowing we had no draw on people if we housed our party somewhere in the city, we moved to a place that heralded the integration of bricks and bytes and we attracted a record-breaking turnout.

### A Year of Commitment

Our success was the outcome of our council members' unselfish dedication and devotion, our unwavering commitment to serve and make changes in JO. Nathan Lee, the JO chairman, spared no effort to motivate the squad; Sunny Chan, the vice chairman, delivered the APC workshop program of a much bigger scale; Tony Wan, the treasurer, pioneered on a new secondary school visit by the JO and Jim Yip, the secretary, made much of the noise in this Newsletter to drum up support from members.

### A Year of Leading by Examples

In JO we embrace a say-and-do culture. We have the grand plan; we also have the strong will to accomplish our goals. For example, in our PQSL program, our JO members Tony Wan, Ronald Cheung, Sunny Chan, Jim Yip and Steven Wong rose to the challenge to speak on the program. Y C Chan, Ivan Ng and Sandy Tang, former JO committee members, also lent important support to the program.

### A Year of Close Operation

Had it not been the support from our senior members, 2002 JO could not have been so successful. We are truly grateful to all our senior members for speaking in our PQSL/CPD programs. Although the list is long, they are: Mr Raymond Chan, Mr Junkers Lam, Mr Alex Wong, Mr TT Cheung, Mr Tommy Yim, Mr Johnson So, Dr Eddie Hui, Mr Alnwick Chan, Mr Bernard Chan, Mr C M Mo, Mr KT Liu, Ms Serena Lau, Mr Roger Nissim, Mr Augustine Wong, Mr Rock Tsang, Mr David Cheung, Ms Macey Ho, Mr Jimmy Woo, Mr Tony Leung, Mr M Y Wan, Mr Simon Lynch, Mr Albert So, Mr C K Lau, Mr Tony Leung, Mr K H Yu, Mr Francis Lam, Mr C K Chan, Mr Nicholas Brooke (incoming RICS President) and many others. Please accept our apology if we have missed mentioning your name.

### A Year of Heroes

What we should really celebrate in 2002 JO is that we have seen a growing number of dedicated young members in JO this year. They delivered an outstanding service to us and they are our unsung heroes. Justin Wong, Raymond Cheng and Kenneth Ko - our PQSL team devised the whole year's program and chased speakers, George Cheung - our CPD convenor who has kept us busy in the CPD program, Cyprus Mok, our dragon boat event organiser. There are also many other equally hardworking members such as Martin Leung, Danny Cheung, Jeffrey Wong, Victor Ng, Joyce Ng, Paul Wong, Kelvin Ng and Wesley Chan.

### The Final Words

Last but not least, we thank the strong support given to us from the HKIS administration office who made our events run smoothly and efficiently.

We have had such a tremendous success this year. We have built a stronger JO platform that fosters individual creativity and provides the facility to push one's limit. We strike for greater professionalism in our young members, we safeguard their interests and we continue to go deep into schools to look for more young talents to join our profession.

We look forward to your continued support to the JO in 2003. On behalf of the 2002 JO team we wish all our members and friends a Merry Christmas and Happy New Year!

## CPD Event

### 23 October: Investing in Property: the Indirect Approach?

Speaker: Mr Karl Lung, Head of Far East Property ABN Amro Asset Management (Asia) Ltd.

*The Growing Force*



As surveyors, we have long been the advocates for direct property investment, and we act as the conduit for much of the capital into property market: we value the site, build it, and market it to sell to investors.

For the past ten years the property market has provided big returns as well as big losses to investors. But gaining exposure to the property market does not only confine to the direct approach. There are many other alternatives, one of which is investing in property stocks.

Go direct or indirect? There are pros and cons. As the speaker Karl explained, there is no hard and fast rule to determine which approach is the best. From an equity fund manager's view, he examined the issues why they preferred the indirect way.

He went further to discuss the equity drivers for the property companies shares. Activities in the property market and in the capital market can affect performance in both markets: shares go up on strong weekend property sales; falling stock prices discourage developers to issue new shares for fund-raising, and as a result making less investment into the property market.

In recent years there has been an emerging trend of growing integration between the property and capital market, as evidenced by the rapid development of Real Estate Investment Trusts (REITs) in our neighbouring countries. Property securitisation has been one answer to solve the illiquidity and lumpiness in direct property investment while avoiding dilution in returns from non-property activities and other problems commonly found in investing in property companies. Our speaker discussed the REITs structure and compared the US's REIT with the Australian one, as these two countries have the most

advanced REITs markets. On his final note, Karl believed Hong Kong had a potential to develop a REIT market and it will boost more market liquidity and bring in new business opportunity for property professionals.

We thank Mr Karl Lung for his excellent presentation. His presentation file can be downloaded from the JO website <http://devoted.to/hkisjo>

### 31 October: How the Planning and Land Policy Could be Used to Enhance Conservation

Speaker: Mr Roger Nissim, Project Planning Manager of Sun Hung Kai Properties

*One Stone, Two Birds*



Public awareness on conservation has been on the rise. Last year there were some landmark victories for environmental advocates. For example, the KCRC Spur Line and the proposed Lantau North-South link between Tai Ho Wan and Mui Wo. Amid the tidal wave of public concerns on environmental protection, the line we can draw is: pay more attention on conservation issue or pay a price. But private developers have their points. Private land ownership must be respected and they should not be asked to finance conservation at their own sacrifice. For many years we have been

looking at conservation from the planning framework. As our speaker Mr Roger Nissim, project planning manager for Sun Hung Kai Properties, explained it has proved ineffective. Using a development case study in which the developer successfully obtained town planning approval for a residential project in the Deep Bay wetland protection area, Roger discussed several options to show how the planning and land policy could be used more creatively to enhance conservation. We thank Roger for the talk and his speech can also be downloaded from the JO website <http://devoted.to/hkisjo>

### 7 November: The Truman Show on Writing

Speaker: Mr Jim Yip, Senior Manager of BNP Paribas Peregrine

*What is the Show?*

The small writing workshop group centered on a discussion on creative writing style and the most powerful way to improve writing skills. "Writing for recognition and making numerous mistakes are no doubt the two most powerful catalysts to grow one's writing passion," says Jim. Using some of the writing samples, Jim demonstrated how we could dramatically change the look and feel of a simple invitation letter by using creative style. He believed one could not get creative without paying meticulous efforts on research, digging up all interesting facts and information about the target speaker.

After the demonstration the participants were split into two groups, each with a mission to invite one property heavyweight as our guest in JO's Lunch n' Learn event by offering them an irresistible bait. As the group exercise had now taken the form of



online discussion after the workshop, each participant is now busy at plotting the convincing story.

Truman Burbank (played by Jim Carrey) in the film Truman Show didn't know he was placed inside a giant dome that covered the entire world he knew of and all the people around him including his wife were actors. In a similar fashion, this workshop has kept one secret from our participants: they are conspicuously not aware that by what they are doing and what they will be achieving they have become our JO event organisers. Many thanks to the participants for making the show successful!

### 11 November: Unleash the GP Power

Speaker: Mr Bernard Chan, Director of Bernard Chan Surveyors Ltd.

*GP Profession, A Jewel in the Crown*



Our speaker Mr Bernard Chan strongly believes GP surveyors have many good things to offer. With our dynamic skills, our services are always in demand even in times of market bust. The industry is undergoing a bad time - slow business, intensifying competition and reduced career opportunities, which is largely a reflection of what is going on in our property market. According to him, the bad times won't last long. "Property is a cyclical business and so

is our industry. If history is a yardstick, as witnessed by the property price pattern in the past two decades, we are now in a cyclical trough and when the market recovers and price swings back, good times are ahead for us," says Bernard. Quoting on his past working experience, he shared how a fully-fledged GP surveyor would perform from feasibility study, site assembly to leasing and property management, and what unrivalled skills we are armed with that sets us apart from the others.

In his final note he encouraged young practitioners not to be deterred by the current market downturn and to keep on acquiring new skills and knowledge. The JO is grateful to Mr Bernard Chan for this wonderful sharing.

### School Visit

#### 22 October: Sowing the Seeds

*Surveyors go back to St. Paul's Co-ed College (SPCC) to promote the profession*

Reported by Vincent Lim, BS student, JO City University Representative

"Good Morning, Please stand. Let's begin our morning assembly by singing hymn..." What was a very normal greeting suddenly brought back sweet memories of our school days. On 22 October 2002, some of the SPCC graduates went back to our mother school and shared their experience as a surveyor or as an undergraduate in surveying. There were two main parts in the program. During the morning assembly, Prof. Barnabas Chung gave us a friendly and interesting speech on the surveyor's job nature and its different divisions, which greatly aroused the audience's interest. We found out that Prof. Chung had made a similar passionate speech twelve years ago and one of the audience, then Ms Wong Kam Wah, had answered his call. Ms Wong, also one of the speakers, gave a vivid account of her exciting career development since leaving the school. During the lunch hour, we had a close and frank dialogue with 20 seventh formers. Some of the students showed their enthusiasm to enter the surveying field. They were hugely impressed with our

presentations. In general, the event was a great success. We are looking forward to having more new blood from our mother school.

JO's note: Our sincere thanks must go to Vincent Lim, who had single-handedly helped stage the event and set up the exhibition booth at the school campus. We are also grateful to the other helpers, namely Prof. Barnabas Chung, Wong Kam Wah, Wong Kam Ling, Candy, Eric Poon, Dickson Leung and Carrie Choi. They are all SPCC alumni and took a day off from work or school in order to meet the students. Leading by example, we endeavor to draw a constant stream of determined and talented young people into our profession.

Our next visit to a secondary school is St Paul's Convent School. We need helpers. Please contact Tony Wan at [tony.wan@ap.joneslanglasalle.com](mailto:tony.wan@ap.joneslanglasalle.com) for details.



## Social Event

**9 November: "This is the First Time I Have Felt Proud to be a JO Member" 童話式的 JO 派對**

*JO hosted a maverick annual dinner party at Cyberport*

Our party began with a magnificent sunset view. As we descended from the western ridge coast towards the seaside Cyberport, we flirted with the idea to race with the orange sun, which was dangling across the West Lamma Channel and at our eye level. The sky was blue, the water shimmering and the translucent Cyberport rooftop sparkling. By the time we reached the site, the last sunlight just faded out from the horizon.

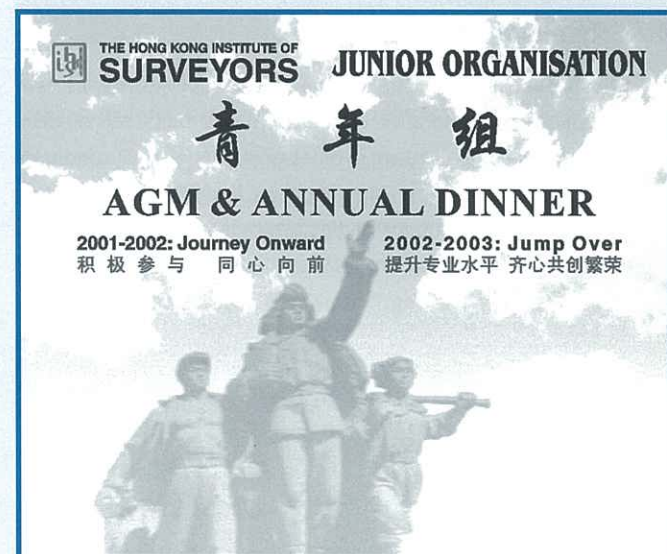
Delightful experiences kept pouring in. The party venue was at the garden podium of the Cybercenter, decking out from the seashore. We could hear the ebbing tide gently lapping on the wall. Over ten tables were laid in the middle of the garden; illumination came from many little electric light torches that hung around the garden. The flickering flames couldn't tell what direction the cool and soothing sea breeze was blowing.

Over 100 guests gathered in, slowly forming small groups. With drinks in hand, we moved around and chatted with each other. Everyone looked funny with a red scarf around his or her neck and shoulder, mimicking the Red Guard dress during the Cultural Revolution.

The party itself was a revolution for the JO. A break from tradition, we didn't host our annual party at a hotel banquet room, instead we went outdoors and at a trendy venue that couldn't be more befitting for a profession that has been the driving force in shaping what will be Hong Kong's answer to Silicon Valley. Almost as shrewd as the developer, we got it free to host the party and we were the first party using this brand new and state-of-art facility.

"The JO party has made us proud," says one young member.

At 7 p.m. the party stopped for a while for the AGM and an election of a new slate of JO leaders. Brimming with confidence, they all pledged to continue the soaring success in JO for 2003. Lest anyone forgot their message, they painted their mission statement in a typical Mao's slogan style on the large backdrop. It read: "Jump Over - 提升專業水平, 齊心共創繁榮."



After finishing the housekeeping chores, the party carried on with a buffet dinner and live band performance. At this point we witnessed the technological prowess at the Cybercenter. With simultaneous broadcasting from the giant video screen in front, we were as if housed in a big cinema and watched the show from every corner of the party. When the 2002 JO team went on stage to sing cantopop songs it sent the party to a crescendo.

Although we intended to party till dawn and then back in a race with the morning sun to climb up Mount Davis, we couldn't. The party was abruptly ended at 10 p.m. by a police intervention. The nearby residents from Baguio Villas complained we had made too much noise.

On exit, did I hear someone say that we will move the party next year to Penny's Bay?

**Special thanks:** to the chief event organiser Tony Wan for his painstaking six months hard work and negotiation for this wonderful party site; to his dedicated team mates: Jeffrey Wong and Danny Cheung for bringing all these new high-tech wizardry and to Teresa Kamolvisit for hand-making over 100 red scarves, which not only had kept the party theme alive, they were also nice serviette and souvenirs for all our guests.

Send your comments to Jim Yip at [jimyiphk@yahoo.com](mailto:jimyiphk@yahoo.com)



AGM



The strong 2003 JO team



Hon. P.C. Lau chatted with young members



The JO band



The JO band

More party photos can be found at the new JO website <http://devoted.to/hkisjo>

### The first JO chairman 1984-85: Wyatt Choy, FHKIS

We seemed to have lost record of the first JO chairman of HKIS. We have found him at last. He was Wyatt Choy (GPD) and is currently the Commercial Director of Kerry Properties.





## CONGRATULATIONS TO THE FOLLOWING WHO WERE ELECTED AS HKIS MEMBERS ON 21 NOVEMBER 2002

### FELLOWS (3)

#### GP DIVISION

CHENG KAM WAH  
POON WING CHEUNG LAWRENCE

#### QS DIVISION

LEUNG LAP KI

### ASSOCIATES (20)

#### GP DIVISION

WONG LAI HUNG CATHERINE

#### LS DIVISION

CHING SIU TONG  
HAYES, DOUGLAS MCLAREN  
LEUNG CHI YAN GEORGE

### QS DIVISION

CHENG SIU CHUNG EDWIN  
CHEUNG WING PUI  
CHONG TSZ KIT  
HO WING KEUNG  
LAI SIU KEUNG  
LAM HOI YAN  
LAM SIK HONG  
LAM WING CHEUNG  
LEUNG WAI MING  
LIU SING KEUNG  
MAK SHIU PAK  
NARRAMORE, ANDREW JOHN  
ROSS, LESLIE FERGUSON  
TANG TSE YEUNG COLIN  
WONG SIU MEI  
YAN PING KEI

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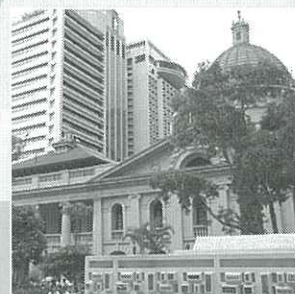


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# NEWS FROM THE PROPERTY AND FACILITY MANAGEMENT COMMITTEE

Michael Price, Chairman

## Where the wind blows

The following has been noted in the Classified Pages of the South China Morning Post over the past 2 weeks.

Saturday, 9 November 2002	Valuation Jobs Nil	Facility Management Jobs 5
Saturday, 16 November 2002	Valuation Jobs Nil	Facility Management Jobs 6

We need to widen our base of skills.

## CPD Functions

Chairman Michael R Price spoke on 12 November 2002 on "Facility Management: The opportunity for surveyors," where he shared his views with fellow practitioners.

He underlined the need for surveyors to broaden their horizons and to be more flexible in their approach, particularly when traditional areas, like valuation are showing little employment demand. Surveyors should be aware of the needs of their clients and well able to deal with issues such as benchmarking, outsourcing, space planning, etc.

For the future, Vice Chairman Gary Yeung is putting together a targeted programme, which will be announced in the newsletter soon.

## Property and Facility Management Lunch

More than 40 practitioners working in the area attended a luncheon at the World Trade Centre Club on Friday, 15 November 2002. This is the first of our lunches aimed at getting people together in order to provide more focus for the HKIS in Property and Facility Management. The guest of honour was Marco Wu. It underlines our aim to create a strong group of members working in these areas within the HKIS.



Chairman Michael Price and Guest of Honour Marco Wu




Property and Facility Management practitioners

## Future work

To deal with Surveyors as Registered Housing Managers, commenting on the new Security and Guarding Ordinance, and improving relations with the Government.

## Survey of Practitioners

So far, 163 members have answered our survey, identifying those members working in this area. If you have not replied, please complete the survey form now, which can be obtained from the HKIS administration office. 



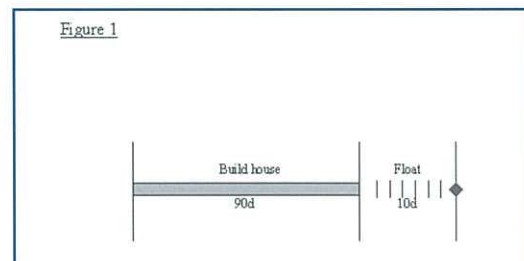
# Ownership of Float - THE VIEWS OF A QS

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

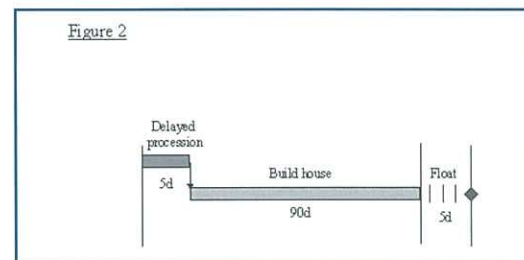


You may be wondering why a quantity surveyor such as myself is writing an article about ownership of float in a contractor's programme. Should this not be a matter for the specialist planners and delay analysts to comment upon? Well the reason for this article is that I am of the opinion that this often discussed problem is resolved not by planning techniques, but by simple contract law.

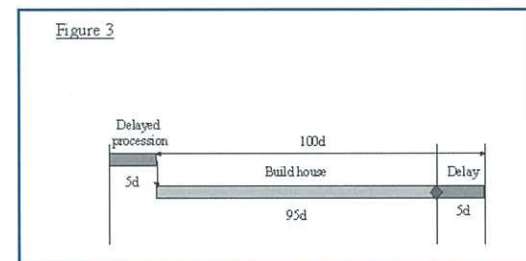
Let us look at a very simple example, if a contractor has 100 days in order to construct a house, and programmes to carry out the task in 90 days, then there is 10 days float in the programme, thus;



If at the outset, the Employer cannot give possession of site for 5 days, the Contractor loses 5 days through no fault of his own.

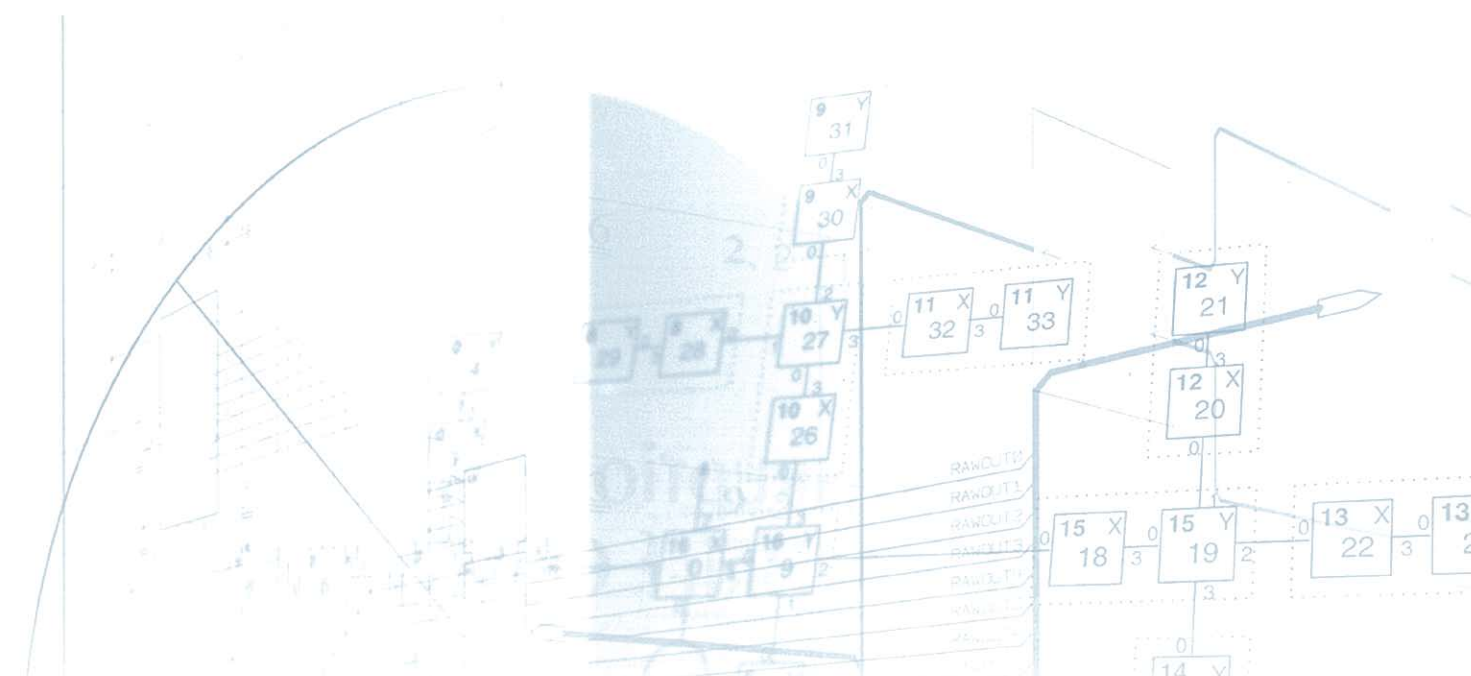


The matter then gets more complicated because the contractor now finds himself in delay for 10 days due to problems which do not qualify as a relevant event, and these problems delay the whole construction.



The question then arises as to whether or not an extension of time is due, and argument centres on who has the right to use the 10 days of float in the Contractor's programme.

Contractors will claim entitlement to an extension of time of 5 days. They will argue that they put those 10 days float in the programme to allow for delays that may occur to the works that do not entitle them to an extension of time. It should be noted here that this does not just mean delays of the contractors making. Most standard forms of contract not only provide a list of matters that entitle the contractor to an extension of time, but also a list of other matters that expressly do not give such entitlement. For example, the KCRC Conditions of Contract at Clause 45.4 provide that the Contractor shall not be entitled to extensions of time for inter alia, inclement weather and increases in quantities not caused by variations. So how does the Contractor allow for such delays? The Contractor would say by allowances for float. Therefore, the Contractor will argue that if the Employer uses his float, his allowance for these delays is lost.



Many Contract Administrators will argue that there is no entitlement to an extension of time because either the Employer owns the float in the programme and when he gave the site 5 days late he simply used 5 days of the 10 days float. Alternatively, they will argue that the float belongs to the person who gets to the float first, and in this case again the Employer, has the right to use that.

Contract Administrators may also argue that an extension of time is only due if the event will cause a delay in completion. Therefore, as they must assess entitlement to extensions of time at the time of the event (and not at the end of the project), no extension of time is due because as at the time the Employer gave the site 5 days late there will be no delay (because of the float). This is a valid point, but a different one that I will address later.

So who is right? Who has the right to the float? Is it the Contractor, the Employer or simply the party that gets to it first?

Well I think that the matter becomes clear when you stand back and see exactly what happened in the above case.

The Contractor entered into a contract with the Employer to construct the works in 100 days. He was given the site 5 days late. He then took exactly 100 days to complete the works and the Works finished 5 days late. How can the Contractor be liable to pay liquidated damages for those 5 days? The 5 days delay was caused by the Employer. The Contractor had the site for 100 days and completed in those 100 days. How can he be liable?

This then is my point. If the Contractor enters into a contract whereby he is given 100 days to carry out the works, then he must be given those 100 days. He can not be liable for liquidated damages if he completes within a 100-day period.

Indeed this position has been confirmed in the very famous old case of **Wells v Army and Navy Cooperation Society (1902)**. This

case is probably best known because it established the point that general extension of time provisions such as 'special circumstances' and the like are not wide enough to cover delays caused by the Employer. However, the case is also of great interest because of the comments of Lord Justice Vaughan Williams regarding the time for completion in the contract. He observed:

*"In the contract one finds the time limited within which the builder has to do the work. This means not only that he has to do it within that time, but it means also that he is to have that time within which to do it..."*

Put simply, the Contractor must have entitlement to have first call on float in his programme because if the Employer takes the float he is in effect unilaterally reducing the time for completion of the works.

So, in our example what should the Contract Administrator do on day five when the Contractor takes possession of the site. At that time the contract may not permit an extension to be granted because on day five the event will not at that time have caused a delay to completion. Well in my opinion, the Contract Administrator should write to the Contractor, stating that at that time no extension of time is due, but noting that he will continue to review the situation, and if subsequently events occur that cause delay that do not entitle the Contractor to an extension of time and which use up the Contractor's ten day float, then at that time the Contract Administrator will grant an extension of time of 5 days for the late possession of site.

Debate on this topic will undoubtedly continue, but I believe that when the words of Lord Justice Vaughan Williams are considered the matter becomes clear. ■



# DELAY AND DISRUPTION PROTOCOL - A BRIEF OVERVIEW

James B Longbottom, Brian E Rawling & Associates



On 16 October 2002, the Society of Construction Law in the UK officially launched its Delay and Disruption Protocol. The preface to the Protocol's web page states:

*"The Protocol exists to provide guidance to all parties to the construction process when dealing with time /delay matters. It recognizes that transparency of information and methodology is central to both dispute prevention and dispute resolution."*

The Protocol explores many areas where there are conflicting views and case law with 21 No. core statements of principle and explanatory guidance. There are also good practice guides on the preparation and use of programmes and records, dealing with extensions of time and retrospective delay analysis. The views and opinions expressed in the Protocol are those adopted by the drafting sub-committee of the Society of Construction Law.

This article briefly outlines some of the Protocol's recommendations.

## Programmes

The Protocol recognizes that the starting point of any delay demonstration is the contractor's planned intentions at the time immediately preceding a delaying event. In this respect the Protocol recommends the use of critical path method (CPM) planning software for preparing the contractor's programme. Some key points are:-

- the programme should, by virtue of CPM, include logic links which show the relationships between activities (e.g. finish-to-start links and the like);
- the lapse of time or lag between the finish of one activity and the finish of another overlapping activity is recommended not to exceed 28 days in duration;

- the programme should be read in conjunction with a method statement; and
- the programme should be accepted or endorsed by the architect / engineer as being a "contractually compliant, realistic and achievable depiction of the contractor's intended sequence and timing of the construction work."

The Protocol rightly submits that the programme should be updated regularly, be dynamic and respond to events so that it reasonably reflects the actual progress of the works. If this is done properly, the programme not only acts as a tool for managing the construction works, but also a tool for assessing time and money entitlements in the event of delays to the progress of the works. Accordingly, the Protocol recommends that consideration should be given to providing the contractor with financial incentives for properly updating its programmes - a concept not new to Hong Kong, with several private developers already using 'pay-for-programming' or other financial incentives on their projects.

## Records

The Protocol recommends that clear agreement should be reached at the outset of a contract as to what records should be kept by the parties.

Poor record keeping is, of course, one of the biggest problems in a construction dispute when it comes to the agreement of facts and delay analysis. The Protocol makes the valid point that a transparent and unified approach to record keeping could even avoid disputes.

## Float

Ownership of float is often a contested issue and one where there are a number of differing views as to who in fact owns the float:

- one view is that as the programme is dynamic, float is a resource which cannot be owned by either party, therefore, he who needs the float has first right to it;
- another view is that the contractor owns the float, because, in planning and programming the works, the contractor has built in flexibility in the event that it is not able to carry out the works as quickly as planned; and
- a hybrid view is found in the Supplement to Hudson's Building and Engineering Contracts, 10th Edition, at paragraph 639, which submits that where a contractor is in advance of planned progress, thereby nullifying the effects of an excusable delay to the date for completion, then an extension of time need only be given if the contractor later has need of it i.e. by later falling into culpable delay. In other words, the contractor would have first call on any float if, after using float to nullify an excusable delay, it later falls into culpable delay.

The Protocol says that where there is no express provisions to the contrary in the contract, the 'fall back position' should be that float is not time for the exclusive use or benefit of either the employer or the contractor. Expressed in terms of 'ownership', the project 'owns' the float.

The Protocol's main point is that the parties should ensure that this issue is properly addressed in their contracts. The Protocol also suggests that contractors should make allowance for the possibility of culpable delays by either:

- allowing additional time in activity durations to reflect the risk of prolongation to such activities; and / or
- including contingency-activities where there is a risk of delay (e.g. groundworks).

## Concurrency

The Protocol submits that where the effects of an excusable delay (for which the employer is responsible) and a culpable delay (for which the contractor is liable) occur in parallel, then the contractor should be entitled to an extension of time for the excusable delay.

The Protocol submits that the contractor may recover

prolongation costs directly attributable to the effects of an excusable delay which are concurrent with costs arising from a culpable delay. However, if the contractor would have incurred such prolongation costs in any event, as a result of the culpable delay, then the rule is 'time but no money' i.e. the contractor would only be entitled to compensation for excusable delays which exceed the duration of any culpable delays or where the culpable delay would have incurred less expenses.

## Mitigation

The Protocol states that the contractor has a general duty to mitigate any excusable delay but this duty does not extend to adding extra resources or to working outside its planned working hours.

## Delay Analysis

The Protocol recommends that the predictable effects of delays should be assessed and extensions of time granted either before or at the time of an excusable delaying event and then considered incrementally as the predictable effects of the excusable delay unfold - a point for Hong Kong architects and engineers to note because in BERA's experience the "wait and see" retrospective approach to delay analysis and the awards of extensions of time prevails in Hong Kong. Likewise, the Protocol recommends that when a judge or arbitrator opens up and reviews an extension of time entitlement he should put himself in the position of the architect / engineer at the time of the excusable event.

The Protocol acknowledges that the most appropriate method of delay analysis will depend on many factors, not least the information available. For example, where there is no proper programme, the Protocol observes that the parties may be left with little choice but to use the as-built programme as the basis of assessment.

To limit future differences the Protocol advises that, where possible, the methodology should be pre-agreed by the employer and the contractor before the start of the analysis.

The Protocol prefers a method of analysis known as "Time Impact Analysis". This is where the impact of particular delays are fed

into the contractor's intended programme which was current at the time immediately before the effects of an excusable delay were realised. This progressive impact delay demonstration technique is one which is favoured by BERA if the circumstances permit.

### Prolongation Costs

The Protocol recommends that prolongation costs should be based on actual cost incurred at the time that the effects of a delaying event occurred and not with reference to the overrun period. This is, of course, the correct approach to take because the financial effects of a delay should be linked directly to the delaying event when establishing causation. Indeed, the resources in the overrun period are likely to drop off at the end of a project and, therefore, may bear little relationship to the resources which were affected by the delaying event.

The Protocol also recommends defining in the contract a pre-agreed daily rate of "liquidated" costs for calculating the amount of compensation recoverable in the event that the contractor's resources are prolonged on site by an excusable event. Again this concept is not new to Hong Kong, but, in BERA's opinion, is advisable only for the simplest of projects. In BERA's experience, prolongation costs may occur alongside other compensable costs (e.g. those arising from delay recovery measures or "thickening" of site management resources). Therefore, if a pre-agreed daily contract rate is to be applied, it should be made exactly clear what time related resources are included in the rate to avoid future ambiguities.

### Disruption

Disruption or loss of productivity is one of the most difficult heads of claim to prove because it is often difficult, or even impossible, to disentangle "cause and effect" for individual events or causes where there is a complex interaction of events all happening at the same time.

The Protocol suggests that the most appropriate way to establish disruption is to apply a technique known as the "measured mile".

This compares the productivity achieved in a disrupted part of a contract with that achieved in a non-disrupted part of a contract i.e. the "productivity yardstick" or the "measured mile". The approach has been judicially accepted (see *Whittal Builders v Chester-Le-Street D.C.*).

The Protocol notes that the method excludes possible counter-arguments such as unrealistic programmes, inefficient working, overly optimistic productivity estimates, etc.

It also acknowledges that the comparison should compare like with like, i.e. it would be incorrect to compare production rates for laying floor tiles in a shopping mall with those in a bathroom.

The obvious problem on a project, which goes horribly awry, is finding a non-disrupted area of working.


Other possibilities suggested by the Protocol are to compare the records with a similar project where there was no disrupted working. Failing that, the Protocol suggests that it might be acceptable to compare productivity with model productivity curves and factors found in various publications such as those produced by the CIOB.

The Protocol discourages applying arbitrary unsupported percentages to account for disrupted working, except, on all but the most simplest of contracts.

### Summary

Copies of the Protocol can be downloaded free of charge from the Society of Construction Law's special web site at [www.eotprotocol.com](http://www.eotprotocol.com).

It provides recommendations on a whole host of other issues including valuing variations, claim preparation costs, mitigation, acceleration, head office overheads, profit and interest. It is a must read for all HKIS readers involved in contract administration and dispute resolution.

For further information please contact [bera@netvigator.com](mailto:bera@netvigator.com) 

# NON-PERFORMING LOANS (NPL) FOR CHINA PROPERTY MARKET AND ITS CONTINUED DEVELOPMENT

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Significant challenges and uncertainties remain, not least the pervasiveness of Non-Performing Loans (NPL) in the banking system. However, the NPL market has been heating up as the China government has been auctioning off these loans to the investors. Opportunities have surfaced as China's asset management companies look to international capital to help the process of the debt workout. This article will address the current state of play for NPL in China and the outlook for its continued development.

Before looking into the current system of NPL disposal, it is indeed essential to understand the reasons why NPL in China's banking system arise and accumulate to such a great amount. Some of them include:

1. "Policy Lending" under planned economy
2. Overheated growth in the early 90's
3. Poor performance of state-owned enterprises
4. Underdeveloped legal and accounting structures
5. Weak supervisory system

According to the People's Bank of China (the central bank of China), the total amount of NPL of the big four state-owned commercial banks was estimated at RMB 1,729.5 billion as at 30 June 2002, which was equivalent to 23.39% of the total loan portfolio. However, it is important to note that the above figures are likely to be calculated using the old criteria which the Chinese banking industry used to adopt, and could be much lower than the results according to international standards.

The high ratio of NPL badly affects the financial stability of China's banking system and the prospect of China's banking industry. To deal with the problem, four Asset Management Corporations (AMCs) were set up in 1999. These four AMCs are funded by the Ministry of Finance to buy up bad debts from the big four state-owned commercial banks. After the purchase, the major task of these AMCs is to administer and dispose of the NPL peeled off from the commercial banks. The AMCs aim is to maximise asset recovery from NPL and at the same time reduce the NPL ratio, prevent and resolve risk of financial instability and reform the China's banking industry as to increase competitiveness of the commercial banks.

The following table shows the amount of NPL the four AMCs acquired from the commercial banks during the first and only NPL allocation in 1999. According to the central bank, this purchase scheme has reduced the NPL ratio from 35% of the total loan at the end of 1999 to 25% by the end of 2000.

Name of AMCs	Source of NPL	Amount (RMB)
Huarong	China Industrial & Commercial Bank	407.7 billion
Cinda	China Construction Bank	394.4 billion
Great Wall	Agricultural Bank of China	345.8 billion
Orient	Bank of China	267.4 billion
Total		1,415.3 billion

According to the AMCs, in general, NPL are broken down in the following sectors:

- Industrial Operations - 47%
- Real Estate Related - 16%
- Agriculture - 8%
- Foreign Trade - 7%
- Commerce - 7%
- Others - 15%

The majority of the debtors are state-owned enterprises of various industries which own a very large amount of real estates such as factories, developable lands, offices, residential flats and hotels, etc. These real estates are scattered in major metropolitan cities like Beijing, Shanghai, Guangzhou and all other secondary cities such as Dalian, Chengdu, Wuhan, Changsha, etc. The enormous amount of real estates constitutes a huge market, not only for domestic and foreign capitals seeking the right investment opportunities but also for property consultancy firms in provision of valuation, property management or other consultancy services.

There are many different means in disposing of NPL and the AMCs are constantly thinking of new ways in getting rid of them. The current methods of NPL disposal include:

- Debt Collection
- Sales
  - Portfolio - Foreign investors
  - Individual - Auction, Tender, Offer, etc.
- Enterprise Restructuring
- Debt-for-equity Swap
- Asset Securitisation
- Joint Venture
- Lease
- Contract Out

The statistics of the People's Bank of China report the progress of AMCs up to 30 September 2002. The four AMCs disposed a total of RMB232.3 billion worth of NPL with breakdowns as follows. These figures exclude the NPL disposed of through debt-for-equity swap, which contributes another RMB240.6 billion.

AMC	Value of NPL Disposed of (RMB)	Percentage of Assets Recovered (RMB)	Percentage of Cash Recovered (RMB)
Huarong	44.3 billion	48.31%	32.96%
Cinda	70.2 billion	39.89%	30.77%
Great Wall	83.8 billion	19.09%	9.19%
Orient	4.0 billion	56.47%	25.29%
Total/Average	232.3 billion	36.42%	22.60%

Source: <http://www.pbc.gov.cn>

Non-performing assets are still sold to domestic investors on a one-to-one basis so far. The most popular and frequently used NPL sales methods in these days are auction, followed by tender. Although the progress is very successful, the purchase power of domestic investors remains limited and is unable to resolve the huge amount of NPL. As a result, the opening up of the market to foreign investors is a must, not only to rely on their capital to absorb the NPL, but also to rely on their management techniques to increase the value of assets.

Therefore, early December last year (2001) marked the first NPL portfolio sales deal to foreign investors. China Huarong Asset Management Corporation sold three portfolios of NPL with a face value of RMB10.8 billion (equivalent to 2.65% of total loan acquired from ICBC in 1999) to a Morgan Stanley led international consortium which included Lehman Brothers and Salomon Smith Barney. The deal was structured in a way that allowed Huarong to participate in the value they created as partners. Huarong would receive approximately half its share in cash, while the remaining amount would depend on the success of the joint venture between Morgan Stanley in recovering the money owed.

Having waited for a long period of more than ten months, the joint venture company finally got approval from the China Ministry of Foreign Trade and Economic Cooperation in October 2002. This was a great sign of green light for future NPL sales to international buyers. The importance of this deal was that it acted as a template for the sale of NPL to future foreign investors in terms of approvals from the government and remittance of earnings out of China, which will help the development of the NPL business in China. The success of the first NPL sales to international investors was

followed by a number of similar transactions to foreign investors. Some of them include:

Time	AMC	NPL face value (RMB)
December 2001	Huarong	2.0 billion
December 2001	Cinda	2.1 billion
December 2001	Orient	1.8 billion
September 2002	Cinda	9.3 billion
October 2002	Great Wall	8.1 billion

As a valuer being involved in providing valuation services of the real estates for two of the above sales deals, a number of challenges in disposition of NPL to foreign investors had been identified:

#### **Incomplete ownership**

In China's land system, ownership of land could be classified into 3 main categories. The first is leasehold land owned by the state and its land use rights are sold to users for a certain time period (usually 50 years or 70 years). The second is urban land owned by the state and have been allocated to various work units also with a specified time period and the third is rural land owned by the state but assigned collectively to the peasants also without a time period.

Among the three categories, only leasehold land has a complete land use rights whilst the other two have rights to occupy the land but have no entitlement to transfer the interests to other parties since the land is officially owned by the state. Therefore, in many cases, state-owned enterprises which own the building would require to obtain the land use rights from the relevant authorities prior to the transfer of the land. This becomes difficult to resolve since an extra land premium is required to be settled by the debtor.

#### **Unfavourable locations**

Only the real estates in decent locations are attractive to investors. Real estates situated in poor locations are hard to dispose of. This scenario would get even worse in the latter stage

when assets with better quality and investment potential had all been disposed of in the early stages.

#### **Difficulties in valuation of real estates**

Difficulties in performing real estate valuation have long been an issue in China. Lack of unreliable market information, opaque land registration system, and difficulties in forecasting due to frequent amendments in government regulations all places a drawback in valuing the real estates. Only a very small number of valuers who have the appropriate expertise and experience in China have confidence in giving their opinion.

Finally, in general, the underdeveloped capital market and the lack of smooth legal process are also the obstacles in slowing down the resolution of China's NPL.

The current average NPL ratio in China's banking industry is still higher than 25%. In order to meet the People's Bank of China's target in lowering the NPL ratio to 15% by 2005, the AMCs must cooperate and dispose of assets in full speed. Years 2000 and 2001 were the infant period of asset disposal. The pace in 2002 so far have shown admirable improvement. With the AMCs' foreseeable advancement in techniques of disposing of assets, no doubt the pace of asset disposition and quality will be improved in the next few years.

With China's implementation of the strategy of "Western Development" and the "Tenth Five-year Plan", China will enter a new development stage, which involves all industries. Together with China's accession to WTO, besides a further opening of the economy, finance and capital market, China will further open the NPL market to foreign investors. This is characterised by the recent approval of the Morgan Stanley and Huarong JV by the China Ministry of Foreign Trade & Economic Cooperation.

In conclusion, with AMCs' advancement in asset management expertise and disposition experience, commitment in setting up a transparent and effective NPL disposal system, along with the improvement on the future's capital market and legal procedures, we would likely be seeing an effective and efficient NPL disposal process soon, which the country desperately needs. ■



## SURVEYOR'S SURF

Stephen Chung, Zeppelin Real Estate Analysis Limited



Some members might have heard of and seen the movie "Rebel without a Cause" (No, no, nothing to do with Star Wars) starring the late legendary James Dean. To those who are not familiar with the movie (the more unfamiliar you are with this movie, the higher the chance that you can still qualify to be a member of the HKIS Junior Organization), it is about a delinquent teenager, who does not do well in school, obey his parents, or have professional goals like us. In short, a troublemaker and a problem kid. The movie was made in the 1950s and James Dean in real life would be in his 70s today if he had not died so young and so soon. And what did James Dean do in his role as the problem kid in the movie? Well, he cruised around in his car, chased girls, and drank milk straight out of the bottle (without using a glass or cup, you know, in those days, this was considered ill mannered and meant a probable spanking from a less than tolerant parent). As far as your humble author could recollect, there were no drugs and there was not even much alcohol in the movie. The whole point here is this = times have really, and I mean REALLY, changed. Today, parents would consider themselves very blessed if they had a kid like that, almost some kind of 'model' student. Have we grown lax or were our great-grandparents being just too stiff (James Dean belonged more or less to the current grandparent generation)? The following websites are neither stuffy nor lax:

<http://english.peopledaily.com.cn/other/archive.html>

This is the archive section of Peopledaily.com and should be a good source of reference for researchers and professionals with an interest in China.

<http://www.dictionary.com/>

Got a word that you do not know the meaning while sitting in front of your computer and you are too lazy to reach out for your pocket dictionary? Hi-Ho Silver (hope I have this Lone Ranger thing right), help is on the way. Just click this URL and input your word in the blank slot. Presto the description(s) appears on your screen.

<http://andromeda.rutgers.edu/~jlynch/Writing/index.html>

Worried about your English grammar (as your humble author always does)? Try this site, it's easy to read and use. It also dwells on common errors that people may have yet does not 'preach' to you on any "100% correct English" nonsense.

<http://www.constructionlists.com/category/email.htm>

Care to promote your services and products to USA companies and the like and yet drag having to spend hours after hours collecting their communication information and emails. Have no fear, you can buy them here.

<http://www.freeconstructionmagazines.com/>

This site appears to offer free magazine subscriptions and there are various sub-categories to choose from. Naturally, you will have to fill out some forms and give out some information prior to getting the goodies.

<http://www.hongkonghomes.com/index.htm>

This is part of the Landscape Surveyors website and it contains a very good database of luxury residential complexes. It shows not

only the facades but also comes with floor plans and other pertinent information. Great for the curious and the serious.

<http://www.xianzai.com/>

This site offers free newsletter subscriptions related to China. Real estate is one of the topics covered. Xianzai means now.

<http://www.internets.com/srealest.htm>

A real estate database link, mostly to USA websites. Handy for a quick reference.

Speaking of movies, regular readers of this column might have realized the author takes an interest in war movies. Recent ones on WWII include "Saving Private Ryan" (France, Western Front, 1944), "The Thin Red Line" (Guadalcanal, Pacific Theatre, 1942-43), "Enemy at the Gates" (Stalingrad, now Volgograd, Eastern Front, 1942-43), "Wind-talkers" (Various Islands, Pacific Theatre, 1942-44), or even "Pearl Harbor" (1941-42, more a love story, or perhaps there should be 2 versions = a love story one and a battle one, especially when the whole movie lasts almost 3 hours = now neither audience is satisfied = and the ending was so predictable = no, I do not mean the battle, I am referring to the love story portion). Vietnam (1965-1975) ones include the recent "We Were Soldiers", and the not so long ago "Platoon" and "Full Metal Jacket". The last one deserves a special mention = not only was it directed by the late famous Stanley Kubrick (who also directed "2001 Space Odyssey" etc), the movie had a much deeper angle on war and humanity. In terms of violence and

battle, you would feel them around you yet without the movie having to literally "draw out all the intestines" (translated from a popular Cantonese phrase). That's the hallmark of a great director.

Send suggestions and comments to [stephenchung@real-estate-tech.com](mailto:stephenchung@real-estate-tech.com) 



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## WINNING WITH THE P&G 99

Written by Charles L. Decker

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In my various conversations with fellow members, I feel that surveyors are mostly working sort of behind-the-scene jobs and rarely are we actively promoting ourselves to the society, trumpeting the benefits of our services to our potential customers locally and globally. So the "brand" of surveyors in the general public's mind is still vague and limited. Fortunately, there are experiences of many successful worldwide companies such as Procter and Gamble (P&G) that we could learn from to strengthen our importance to the real estate, finance and construction fields. These worldwide companies build brand to convey brand awareness to customers and to bring brand image to differentiate deliverables. They also understand that a good brand, on top of various tangibles such as factories, inventories and cash, commands a premium stock price among investors. And the basic theory is that strong brands have the power to increase sales and earnings.

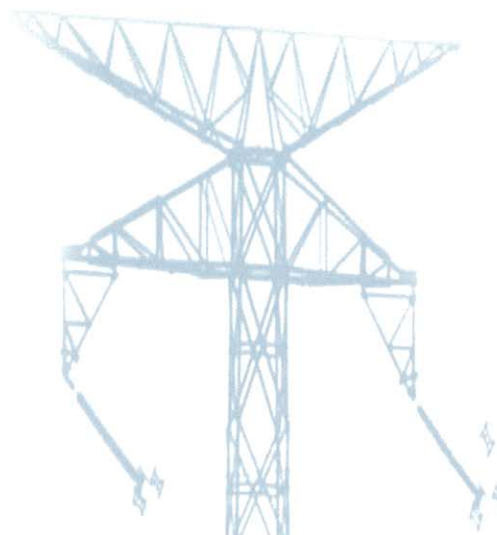
In today's knowledge economy, the value of companies has been shifting from tangible assets to intangible ones, such as patents and brands. As real as P&G's tangible products, its brand value equals to 40% market capitalization. According to Business Week's Best Global Brand Ranking 2001, P&G's portfolio brand value was US\$45.4 billion (compared with Coca-cola's brand value at US\$68.9 billion).

I was unaware of the importance of branding until a few years ago when a veteran banking executive recommended me to read

this book to understand how this 165-year company, built brand and delivered more than 250 products in 130 countries. **Winning with the P&G 99**, a 237-page hardcover, reveals the 99 principles and practices of P&G's success; the lessons 1 to 99 was summed up by an ex-brand manager (the author). The said bank executive picked the book with one sensitive intention because his company had just bought in a few ex-P&Gers to head up the marketing department in order to transform the way they did banking businesses.

The author spent the first few chapters on their commitment to serving consumers and providing products and services of superior quality and value that improve the lives of the world's consumers. They never try to fool the consumer to market inferior products because they know consumers would carefully weigh the relative merits of available products against their relative costs.

P&G is always credited to first understand the consumer's needs and then develop the right products and market them to meet those needs. Naturally a true value to the consumer is what the product delivers the perceived benefit. In China, for example, P&G shampoo brands are three times more expensive than local brands, yet P&G sells half the shampoo in China. That is to say the perceived quality of the P&G brands is worth the premium price to the Chinese consumers.



Having met with the consumer's perceived needs of good quality products, P&G do not ignore their efforts on building brand - which bridges an emotional and trust-based connection with the consumers. Consumers form hidden relationships with brands that often exaggerate the real differences among them, such as a Crest toothpaste loyalist will not buy Colgate toothpaste. Therefore, P&G is handling their brands carefully and are very cautious about changing anything about the brand that the consumer has associated with - such as logo, package design, colors or flavors.

Within P&G, all employees share a unique and strong culture that have a significant effect on its performance and support core ideologies. They believe that they need to do the right thing ethically, be objective and true to the facts, and best for the business long-term. In addition, strategic thinking is a way of life for P&G's employee - to get things done with a purpose, thoroughness, and clearly defined goals. As stated in their web site, their core values by which they live: "We always try to do the right thing. We are honest and straightforward with each other. We operate within the letter and spirit of the law. We uphold the values and principles of P&G in every action and decision. We are data-based and intellectually honest in advocating proposals, including recognizing risks."

A few lessons that impress me are P&G rituals on memos. The written memo is integral to the P&G culture - the vehicle for exchanging information and making decisions. Their memos are of two basic types - information memos and recommendation

memos. They are critiqued to assure that the information is accurately and concisely reported. For example, recommendation memos must present a logically sequenced and airtight intellectual case for the recommendation. The format of memo connects the proposal to its strategic underpinnings and its sample memo includes: statement of purpose, background, recommendation, rationale, discussion, next steps and supporting exhibits. If you can write a one-page P&G memo, you can learn how to think. It is normal for the Harvard MBA who graduated with honors in English from Princeton to spend three years to learn to write a simple and straightforward memo at P&G.


Many companies place significant focus on its people (or employees), and P&G is no exception: they are also very focused on developing its people and work very hard at recruiting the best. Supervisors are charged with responsibilities to treat every interaction with subordinates as a coaching opportunity. Through this interaction, a coach helps subordinates learn as you do it. More important is the reinforcing of the company's culture to make everyone a leader by delegating responsibility and decision making down into the organization.

"Think Global, Act Local" seems to be a universal slogan for many global companies, so international businesses are important to P&G, not just an add-on to their already successful US business. People all around the world need cleaning and personal care products. So P&G capitalizes on the opportunities to meet the universal needs with its products. As per Lesson 55, P&G could not afford to ignore the China market that provides an enormous

nd of living rises. China is the largest  
e world that has 20% of the world's  
sales in China are only \$1 billion - about  
ed to \$60 a person in the US. Therefore  
establish leadership in many categories

readers' notice. Most P&G ads tell the story with a visual like a  
woman with shiny hair and a bottle of Pantene shampoo. They  
try to keep the advertisement short and sweet - stick to a single  
message. Lastly products wrap it up with a tag line to reinforce  
the brand's strategic positioning like "Pamper the skin they're  
in".

ing to Market" is the most important  
pany. Once a new product comes out  
ent stage, P&G needs to pick a simple,  
l become the brand of the product, not  
llowing this is the package design as  
nt advertising. The consumer benefit is  
i commercial, so the TV advertisement  
ge viewers you want to reach. For print  
resting visual is very crucial to get the

Successes of branding of goods/services depend on the  
emotional connection between consumers, brand and product/  
service identity. Such forge is like someone who drinks Coca-  
Cola when they are thirsty; or eating McDonald's hamburgers  
when they are hungry. P&G's key success factors do provide  
insights for all members to explore ways of promoting the brand  
of our Surveying profession to play a significant role for the  
development of Hong Kong and other countries. 

## Update of GOVERNMENT PRACTICE NOTES

Practice Note/Reference#	Description	Date	Home Page
Practice Note 9/2002	Installation of Radio Base Station in respect of Mobile Network Phone for Public Telecommunication Services (2G/3G) in buildings and/or rooftops.	16 October 2002	<a href="http://www.info.gov.hk/landsd">www.info.gov.hk/landsd</a>
Practice Note 5/2001A	Information Technology and Telecommunications Industries in Industrial Premises.	16 October 2002	
Technical Guidance No. 10	Enhancement of Rock Slope Engineering Practice Based on Findings of Landslide Studies.	15 November 2002	<a href="http://www.info.gov.hk/ced/eng/publications">www.info.gov.hk/ced/eng/publications</a>
Technical Circular (Works) 10/2002	Emergency Incident Reports from Works Departments to Environment, Transport and Works Bureau.	4 November 2002	<a href="http://www.etwb.gov.hk/cswp">www.etwb.gov.hk/cswp</a>
Technical Circular (Works) 4/2002	Regulating Actions for Contractors Convicted of Employing Illegal Workers or of Having Illegal Workers on Sites under their Control.	1 November 2002	
Technical Circular (Works) 3/2002	Novation of Consultancy Agreements.	16 October 2002	



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# SURVEYORS ANNUAL DINNER 2002

Six hundred guests and members packed the Grand Ballroom of the Grand Hyatt Hong Kong on 22 November 2002 for the Annual Dinner of the Hong Kong Institute of Surveyors.

The Institute was honoured to have invited Mr Michael Suen, Secretary for Housing, Planning and Lands as the Guest of Honour.

After the welcoming speech by the President Hak Chan and speech by the Guest of Honour Michael Suen, the President began the draw of the table prize of a cordless mouse (computer). Members and guests were also tested

on their knowledge about the Institute and surveying in a quiz.

Many thanks of appreciation go to the MCs, Miss Cello Chan and Mr Jeffrey Wong, and to the Organising Committee for their contribution and hard works.

We hope everyone enjoyed the evening and we look forward to seeing you next year. If you should have any views or comments we would be glad to hear about them.



Junior Vice President Mr Tony Tse (1st left), President Mr Hak Chan (2nd right) and honouable guests



Guest of Honour Mr Michael Suen (3rd right) and fellow honouable guests



Mr Michael Suen being presented with a souvenir from the President



Senior Vice President Mr Kenneth Chan presenting a prize to one of the winners of the quiz



The winning number of the table prize



Immediate Past President Mr Stephen Liu and guests



Hon Secretary Mr Alex Wong, Mr Sunny Chan and Mr Barnabas Chung



Hon Treasurer Mr TT Cheung, Mr Antony Man and the MCs Mr Jeffrey Wong and Miss Cello Chan