

Shui On Lays Strong Foundation

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There are many opportunities for Hong Kong businesses as the mainland opens up. But it will not do to cut corners or neglect the country's cultural heritage and environment, Shui On Vice-Chairman Wilfred Y.W. Wong tells Don Gasper.

Property developer Shui On is about to embark on a new stage of its history.

A new company, Shui On Land (SOL), has just been set up to co-ordinate the group's projects on the mainland.

"It was time to group everything under one umbrella," explains Wilfred Y.W. Wong, vice-chairman of Shui On Group and vice-chairman and chief operating officer of its new mainland arm.

The company has been investing in real estate on the mainland since 1985. In 1996, it started to invest in Xin Tiandi and Taipingqiao in Shanghai, and later in Rainbow City – a high-end residential development for the middle class.

Xin Tiandi is the new retail and entertainment area of Shanghai that has won widespread acclaim for its "yesterday-meets-tomorrow" concept.

"Because of the success of Xin Tiandi," Wong continues, "we were invited by many local governments to invest in their cities and, therefore, we extended our operations to Hangzhou and Chongqing.

"We feel that we should have one single vehicle that people recognize as our mainland flagship and that is primarily focused on real estate development."

Previously there was some confusion, with Rainbow City, started by the private Shui On company, being later injected into its Hong Kong-focused listed unit, Shui On Construction and Materials (SOCAM).

There will be a special general meeting of SOCAM tomorrow to see if the minority shareholders agree to injecting the company's stake in Rainbow City into SOL, along with US\$50 million in cash.

Shareholders will get up to US\$138.8 million worth of ordinary shares in SOL in return and the whole company will benefit by gaining a bigger and more diversified portfolio, Wong says.

"The shareholders' agreement has been signed – we are waiting for a vote. We are looking to incorporate SOL in early May."

The company will inject its Hangzhou and Chongqing projects into SOL later on. As for other projects, SOL will have the first right of refusal.

Regarding the timeframe for listing, Wong says they are looking to build up the profits of the new company first.

“Right now we are thinking of early 2006 as a possibility. It has not been decided where the listing will be.”

SOL is being launched at a time when the mainland’s property market has been roaring at full throttle. But although he acknowledges that there has been overheating in some segments of the market, Wong dismisses fears about a property bubble.

“The government is tightening lending criteria for mortgage loans for properties below a million dollars so that only 70 per cent of the price is covered by the mortgage. This is to cool down speculation at the lower end of the market.”

For example, in Shanghai, the government is treating the housing market as two separate segments. Right now, it will control the prices at the lower and middle ends of the market so as to look after the needs of local residents. But for luxury apartments it is leaving things to the market.

Economic growth and housing prices go hand in hand. The mainland economy is enjoying double-digit growth and Wong expects the property market to grow at between 10 and 15 per cent a year.

Demand for housing is very strong, particularly in Shanghai, where there are a lot of foreigners and people from other provinces. “Last year what was built was sold. And this is not just in Shanghai – it is true of Beijing, too,” he says.

“The Lakeville, phase one of the luxury residential complex we are building in the Taipingqiao area of Shanghai, is almost completely sold,” Wong says by way of example.

“We sold 270 units even without advertising! Some of the units have even been resold for a handsome profit.”

The same is true of the demand for office space: Leasing is proving very strong at Towers 1 & 2 of Shui On’s Corporate Avenue in Taipingqiao. They were handed over on January 1 and 50 per cent of the offices have already been let out, mostly to multinational corporations.

Wong confirms that Shui On hopes to get another 83 hectares of land from the Shanghai city authorities.

It is close to finalizing another deal with the Shanghai government whereby it would develop part of Yangpu district, an area with a lot of old buildings and factories. A master plan for the development is being worked out.

“We, as a developer, would like to distinguish ourselves from the pack,” the vice-chairman says, explaining the firm’s approach of combining conservation with development.

“We don’t just grab a piece of land. We’re there for the long haul and look at things from a long-term investment angle.”

“We seek to acquire the whole chunk of land where the development will be so that we can control the environment. We respect the heritage of a city.”

For example, in Xin Tiandi, it preserved the stone gate (shikumen) buildings. Half the population of Shanghai once lived in such buildings, so “there is a lot of history”.

It’s the same in Hangzhou. The company is renovating the old Zhejiang – style houses with their grey roofs and white plaster walls to turn them into retail shops near West Lake.

“In Hangzhou, we are trying to design according to the principle of sustainable development, with natural ventilation, water recycling and so on. We are hoping that Xihu Tiandi, our project there, will be the first on the mainland to win the platinum LEED (Leadership in Energy and Environmental Design) certification awarded by US Green Building Council.”

“There is an aesthetic element to the Chongqing project, too,” he says. “It will have a cultural focal point situated right next to the Jialing River.”

There has been some misunderstanding about the Hualongqiao development there, with some reports saying that it is intended as an industrial park.

“What we have in mind is rather a manufacturing service centre, a place for lawyers, accountants, designers to have their offices. In other words, everything to support manufacturing.

“It will be an extension of the Yuzhong commercial district – a bit like what Admiralty is to Central in Hong Kong. We are going to build a pier and piazza there. We will pay a lot of respect to the local architecture and won’t just import styles from other cities.”

The company’s Hualongqiao development in Chongqing has been a focus of controversy in the last few days, with reports of demonstrations by displaced residents seeking better compensation.

“In Hualongqiao, we have done everything according to the law and government policy,” Wong says, asked if he feels his company has a moral responsibility towards those being relocated.

“It is the local government which decides on the level of compensation to be paid to those who are relocated – we simply pay the local authority. We don’t get involved in the relocation itself.”

The formula for compensation paid by the government reflects the level of economic growth and the cost of living, and varies from city to city.

“I don’t know the rate being paid in Hualongqiao. We just pay a lump sum,” he said.

He admits that corruption is involved in relocation processes, but the situation is improving.

“The government is doing a lot to address this issue. Of course, it is not possible to straighten things out right away,” he says, adding that his company has steered clear of corruption.

“With us, everything is above board. We are recognized as being honest people,” says the Shui On vice-chairman.

He says the importance of *guanxi* (connections) is overemphasized.

“Everywhere in the world, there is an element of *guanxi* – it is the same in Hong Kong and in the US.”

Shui On Chairman Vincent Lo entered the mainland market in 1985, when he teamed up with the Communist Youth League in Shanghai to build a hotel there.

The first chairman of the board of the hotel joint venture was Han Zheng, the current mayor of Shanghai. “Naturally a high degree of trust in our company has evolved as a result of our work over the years.

“The playing field is quite level, however. Any developer who wants to invest in China has the opportunity. A lot of land goes for tendering and auction.

“For megaprojects, on the other hand, it is true that we have an edge over our competitors because of our track record. We have delivered what we promised. Also, we don’t just look at our bottom line. We consider what we can bring to a city, how we can contribute something to the community.”

Speaking of opportunities for Hong Kong companies, Wong, who is vice-president of the Shanghai-Hong Kong Council for the Promotion and Development of the Yangtze, points to the Yangtze River Basin that runs from Shanghai to Chongqing.

“There are definitely a lot of business opportunities for Hong Kong under the government’s Go West Policy, especially for small- and medium-sized enterprises. Vast infrastructure must be built and there is a need not just for cutting-edge technologies but also all the support facilities.”

A lot of Hong Kong businesses have experience working in the Pearl River Delta. Now it's time to look further.

"In the past Hong Kong companies were just testing the water in the interior. Now a lot are really going in. A lot of large companies have already set up branch offices in the western region.

"The opportunities are there under CEPA. If we move fast enough we'll get them."

BIO-BOX

Wilfred Y.W.Wong joined Shui On Holdings in September 2002 and is vice-chairman of the group. He is also a deputy of the National people's Congress and a member of the Selection Committee for selecting the chief executive of the HKSAR government.

Wong worked for the Hong Kong government between 1975 and 1992, where, latterly, he was deputy director-general of industry and then deputy secretary for the civil service.

He left the civil service to become deputy chief executive of K.Wah International. While heading China Investment Group, a company he founded in 1994, Wong was concurrently appointed managing director of Henderson China Holdings in 1999.

Born in 1952, Wong graduated with a bachelor of social science degree from the University of Hong Kong. He received a diploma in management studies from the Chinese university of Hong Kong and studied post-graduate administrative development at Oxford University. Wong also holds a master's degree in public administration from Harvard University.