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The Edge, Malaysia

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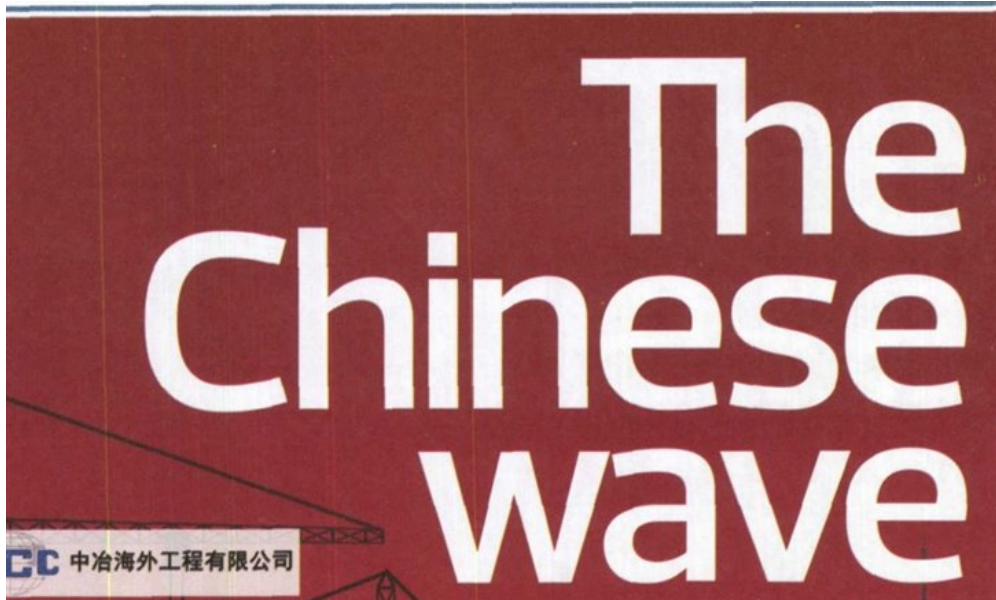
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Page 1 of 11

The Chinese wave

Cash-strapped Malaysian developers have welcomed China-based contractors that offer them deferred payment schemes, enabling them to kick-start their projects. But local contractors see these Chinese firms as a threat. Our Cover Story on [Pages 59 to 62](#) looks at how these new players have changed the construction landscape.



STORIES BY **TAN SIEW MUNG** AND **KATHY FONG**

When you drive around the Kuala Lumpur city centre, there is a good chance you will come across a property development being constructed by a China-based company.

At the busy intersection of Jalan Ampang and Jalan Yap Kwan Seng, within a stone's throw of the Petronas Twin Towers, China Metallurgical Group Corp (MCC) subsidiary MCC Overseas (M) Sdn Bhd is building the 55-storey W Hotel and Tropicana Residence for Tropicana Corp Bhd.

Heading towards Bukit Bintang, Beijing Urban Construction Group Co Ltd is building property tycoon Tan Sri Desmond Lim's Elite Pavilion Serviced Apartments adjacent to Pavilion Mall.

Not that far from this bustling shopping district, passers-by are unlikely to miss China State Construction Engineering Corp Ltd's (CSCEC) huge signboards that say, "Committed to deliver excellent quality to Mulia Signature Tower". The Fortune 500 company's temporary office, painted in its corporate blue and white colours, is just across the road.

CSCEC is working round the clock to complete the 92-storey tower for Indonesia-based Mulia Group. The skyscraper, which is only 30ft short of the capital city's iconic twin towers, is coming up in Tun Razak Exchange — the prime tract that the controver-

sial Malaysia Development Bhd had bought cheap, at roughly RM46 psf, from the federal government.

China-based companies are not new on the construction scene in Malaysia. The few that *The Edge* had spoken to before have been in this country for more than 20 years but they have been hardly visible. The Second

Penang Bridge, the longest built across the sea in Asean, is probably the only landmark in the country in which a Chinese contractor was involved. China Harbour Engineering Ltd built the underwater foundations of the bridge and also worked on its main portion.

The reason China-based construction companies have been sprouting up in town of late is that they need jobs abroad and Malaysian developers need financing.

Lucky coincidence

It can be said that the prudent lending policy of local banks opened a window of opportunity for Chinese companies, enabling them to grab a piece of the Malaysian construction boom.

When local banks turned extra cautious on their loans to the property sector, developers, especially those that did not have a strong balance sheet, were caught in a tight cash flow situation. The latter could not generate good sales because prospective homebuyers faced difficulties in getting mortgages but more importantly, they could not secure the amount of bridging loans they needed to kick-start their devel-

opment projects.

Enter the Chinese companies, which offered local developers deferred payment schemes for construction work, whether it was for upscale landed residential projects or condominiums. In fact, the developers did not have to pay these contractors until the work was done.

Bina Puri Holdings Bhd group executive director Matthew Tee says some Chinese companies are willing to offset their construction profit against units in the developments. "The Chinese contractors bring along with them financing packages that [local] developers cannot resist. The Grade 1 Chinese contractors bring their big balance sheets, which is money, to assist local developers in financing their construction," he adds.

Some developers were even offered lump sums to start structural work, such as piling. Not only that, these contractors could team up with their partners in mainland China to help local developers sell their properties in that massive market, which the whole world seems to be eyeing.

It is understood that local developers will be charged interest on the outstanding loan. Still, deferred payments are a big carrot to hold out to them.

In short, the Chinese companies are helping ease the cash flow burden of local developers. This is even more essential when sales are slow and developers need more capital to complete their projects.



“There are now many Chinese contractors here because local contractors could not cope with the demand three or four years ago. The Chinese contractors smelt something then ... there was demand for construction work here,” Mah Sing Group Bhd managing

director and CEO Tan Sri Leong Hoy Kum tells *The Edge*.

“CSCEC is the biggest in China for construction work. You can see its projects everywhere in China and Hong Kong.”

Mah Sing is among the local de-

velopers that have China-based contractors working for them, having hired CSCEC and MMC. Nonetheless, Leong stresses that only a small percentage of the property group's projects is being built by Chinese contractors. His rationale for employ-

CONTINUES ON PAGE 62

Malaysia a test bed for newcomers from China

FROM PAGE 59

ing them is not so much the deferred payment scheme. “They build with speed and good quality,” he says. “As there are thousands of jobs in China, these contractors would have had the chance to gain experience.”

According to Leong, the Chinese companies vary the packages they offer based on the local developers' financial strength. “The bigger you are, the more your bargaining power,” he says, adding that some form of collateral is also required.

In terms of technological know-how, IJM Corp Bhd CEO Datuk Soam Heng Choon says the Chinese contractors are on a par with the South Koreans and Japanese, who had built the Petronas Twin Towers.

Soam, whose diversified group is involved in construction and property development, agrees that the Chinese contractors' deferred payment schemes do help lighten the burden of the developers.

Sales in China

It is certainly good that China-based contractors can help local developers sell properties in their home market, especially since people on the mainland are keen to invest abroad, particularly in real estate.

However, there are doubts about the sales these contractors can help generate, simply because it is not easy for the general public in China to take money out of the country. This has been underlined by recent news reports that Guangdong-based property developer Country Garden has closed all its sales galleries across China that showcased its flagship Malaysian housing project Forest City.

The South China Morning Post reported that the closure of the showrooms was a move by the central government to curb money from leaving the country. However, Country Garden Pacificview Sdn Bhd, the master developer of Forest City, clarified last Friday that the closure was temporary and not a knee-jerk reaction to the implementation of any Chinese government policy.

Choose the right contractor

While deferred payments for construction work appear to be a blessing for developers, they have to be mindful of choosing the right contractor that can assure quality and completion on time. Picking the wrong contractor could become a nightmare.

Already, some of the developers and local contractors contacted by

The Edge have expressed their concerns about the Chinese companies they have appointed.

A subcontractor claims that it has not been able to collect payments from the Chinese main contractor for structural works it has completed on an upscale property project in the city centre. It took legal action against the Chinese company but the project's owner stepped in to make the due payment. The Chinese contractor compensated the owner in the form of a discount on the construction cost.

According to the subcontractor, the development is behind schedule. It has been delayed by almost a year simply because the Chinese contractor lacks project management experience in Malaysia.

Unfortunately, this case is not an exception. A mid-sized developer tells *The Edge* that if it could turn back the clock, it would not hire a China-based construction firm as the main contractor for a development project in the Klang Valley.

“They couldn't make progress on the work. It could be that they were not familiar with the local operating environment. Most of the time, the Chinese contractor we had ap-



pointed couldn't get things done," says its senior executive. "They are good at sweet-talking you ... they promise you many things. But when it comes to delivery, it is a totally different story."

Quality is also a cause for concern.

While stressing that it has been "so far, so good" for Mah Sing where Chinese contractors are concerned, Leong acknowledges that it is crucial to pick the right one. "We haven't had any problems so far ... touch wood," he quips.

He says Mah Sing's stringent pre-qualifying screening process has helped it in selecting reputable Chinese contractors. "Within the same construction group in China, there are many similar units. You need to know which units are led by capable managers and which are not. Obviously, you also have to know which manager is capable and which isn't," he remarks.

As the property tycoon points out, the strength of developers is their bargaining power. "It is not whether or not a Chinese contractor wants to offer us a package but whether or not we want to appoint it," says Leong.

Econpile Holdings Bhd chief executive director Raymond Pang, who has worked with Chinese contractors for years, tells *The Edge* that Malaysia is a test bed for newcomers from mainland China. "Chinese contractors give lower quotations because they are not aware of the hidden costs. Also, they may not know some of the procedures that will add to their construction cost," he says.

However, he notes that once the Chinese contractors gain experience from several projects over the years, they become better. He opines that Chinese contractors will help drive the domestic property sector with their easy payment schemes. "If they don't come in, there will not be enough jobs for us. We would be worse off." **E**



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China Railway Construction Corp is the main contractor for Four Seasons Place



Being main contractors, the Chinese companies still need to farm out jobs to local subcontractors as it is very unlikely that they could do everything on their own



Tee: The Grade 1 Chinese contractors bring their big balance sheets, which is money



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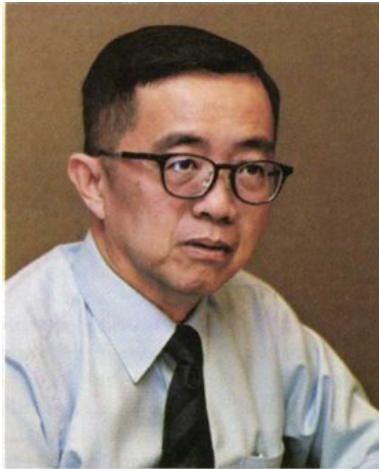
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SUHAIMI YUSUF/THE EDGE



Leong: Many Chinese contractors are here because local contractors could not cope with the demand three or four years ago

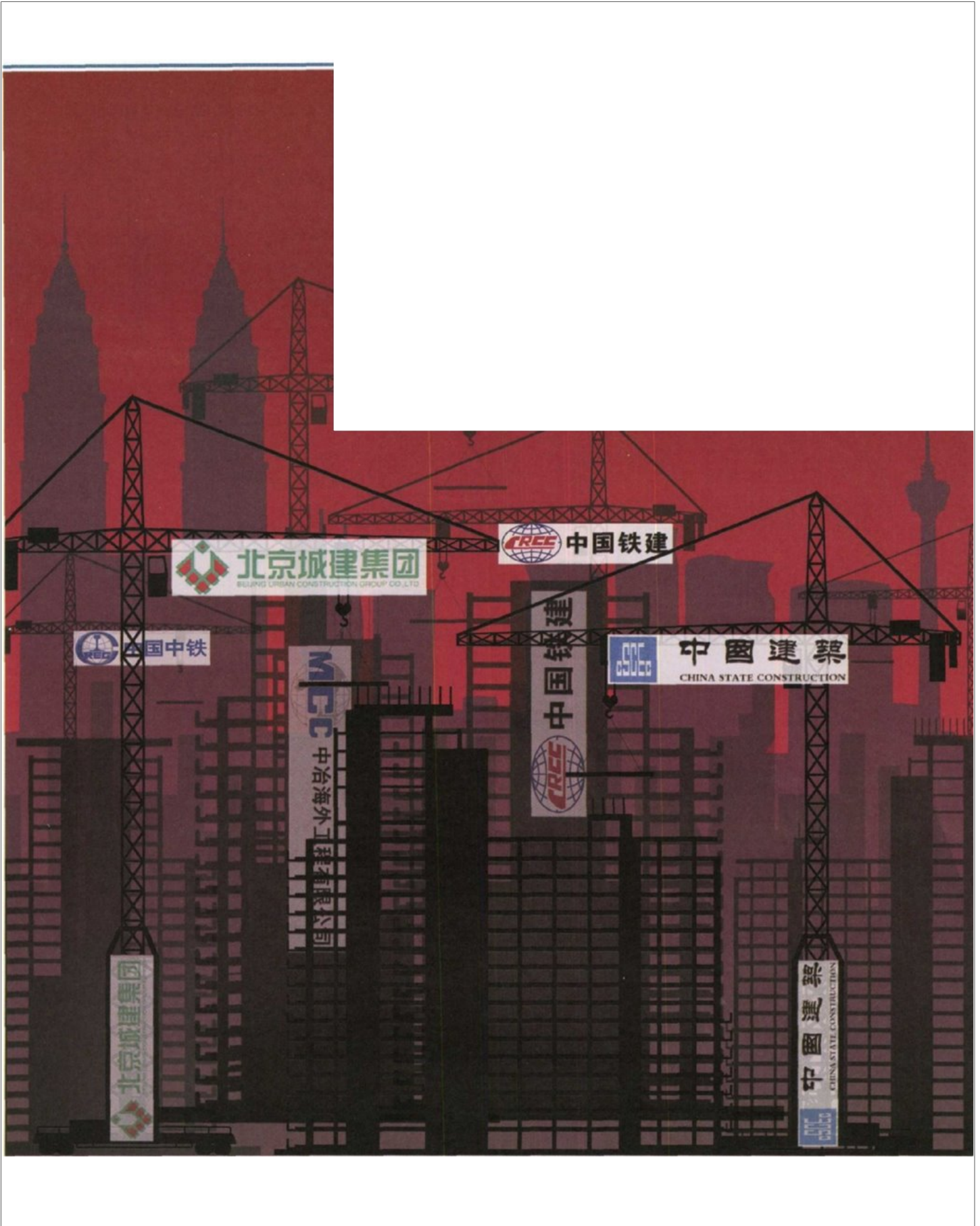


Soam says in terms of tech know-how the Chinese contractors are on a par with the South Koreans and Japanese



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Page 8 of 11

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Industry: Property & Construction > Developer & Property Estate
Category: Industry News

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Company: Country Garden Pacificview Sdn Bhd
Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > Product & Services News

Brand: Penang Bridge Sdn Bhd
Company: Penang Bridge Sdn Bhd
Industry: Special Issue > Special Issue Corporate & Company
Category: Company News > General News

Brand: Bina Puri
Company: Bina Puri Holdings Bhd
Industry: Property & Construction > Building & Construction Contractor & Developer
Category: Company News > General News

Brand: Mah Sing Group Berhad
Company: Mah Sing Group Berhad
Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > Product & Services News

Brand: Pavilion Kuala Lumpur
Company: Kuala Lumpur Pavilion Sdn Bhd
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Page 9 of 11

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Company: PETRONAS Twin Tower
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Company: Four Seasons Hotels Inc
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Brand: Tropicana Corp Bhd
Company: Tropicana Corp Bhd
Industry: Property & Construction > Building & Construction Contractor & Developer
Category: Company News > General News

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Company: Multimedia College
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Category: Company News > Product & Services News

Brand: IJM Corporation Berhad
Company: IJM Corporation Bhd
Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > General News

Brand: Country Garden
Company: Country Garden
Industry: Property & Construction > Property & Construction Corporate & Company
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Company: Gamuda Bhd
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