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Henderson Land: The Bid for the Hong Kong Station Development Project

In June 1995, Lee Shau-kee, Chairman and Managing Director of Henderson Land Development Company Limited (Henderson Land), was deciding whether to compete for the right to develop one of the biggest property projects ever in Hong Kong. The project involved the development of three office towers, retail space and two hotels on reclaimed land in the Central Business District of Hong Kong. In order to win this HK$40 billion property project from the Mass Transit Railway Corporation (MTRC), Henderson Land had to submit a bid before the close of the tender on 12 January, 1996.

Lee Shau-kee was keenly aware of the potential value of the project. Completed properties on the prime site were bound to be famous landmarks worldwide, and it was the opportunity of a lifetime to be able to undertake such an important project in the financial heart of Hong Kong. But Lee also knew that it could be very risky for Henderson Land to submit a tender by itself, given the size of the project. Due to the likely long development period, slow payback and high interest costs, development projects of this scale required massive capital reserves on the part of the developer. Having considered the financial resources required and the opportunities for future tenders, Lee believed it was almost impossible to bid for the venture without seeking support from external partners. In November 1995, Henderson Land began talks with Sun Hung Kai Properties Limited (SHKP) on the proposed bid. The two property companies, together with Henderson Land's associate Hong Kong and China Gas (HKG), planned to form an alliance to spread the investment risks and win the rights to this prestigious property deal. They also hoped to get financial backing from Bank of China (BOC).

Background to the Hong Kong Station Development Project

In November 1994, the Sino-British Land Commission agreed to release 622,449m^2 of land to the MTRC for development in return for construction of the new urban railway line linking

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Mary Ho prepared this case under the supervision of Dr. Frederik Pretorius for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes. The case narrative APPROXIMATES events as they occurred at the time, but it is expressly stated that while the venture participants were accurate when the project was originated, the situations presented here for analysis are TYPICAL under these circumstances and ARE NOT INTENDED to reflect the actual problems that the venture partners had to deal with. For the most part actual events remain confidential.

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Hong Kong Island and the new airport at Chek Lap Kok.[1] As part of the agreement, the MTRC obtained development rights in five station sites along the airport railway, namely the Central reclamation area, Kowloon West, Tai Kok Tsui, Tsing Yi and Tung Chung [see **Exhibit 1** for the map of Hong Kong and the MTR network and **Exhibit 2A** for details of the five major airport route sites]. Of the five sites, the Central reclamation area (also called the Hong Kong Station development project) was the most prestigious and valuable [see **Exhibit 2B** for a map of the project]. It was common practice for the MTRC to sell interests in such development rights to finance the development of its rail network's assets, and this new line to Chek Lap Kok was no exception.

The Central reclamation project was one of Hong Kong's largest-ever urban reclamation schemes. The site represented the last major piece of undeveloped land in the Central Business District, the traditional prime office location in Hong Kong. It had unobstructed harbour views, and in many respects it could be regarded as the future of the coveted Central district. Sitting above the proposed MTRC Airport-Express Railway's Hong Kong Station, the site would create a developable area of 416,027 m^2 comprising three office towers, retail space and two hotels. The Hong Kong Station would include airport-style arrival and departure halls, and serve as the in-city check in facility for the new airport. The whole project was scheduled for completion in phases from 1999 to 2002. Construction for the first phase was expected to start in late 1996, and this would include 62,000m^2 of office space and 17,000m^2 of retail space. The second and third phases would have 73,000m^2 of retail accommodation, and the fourth phase would be a 85,001m^2 office tower. A total of 102,251m^2 of serviced apartments and hotel space would be built in the fifth phase, while the final, sixth phase would include a 76,651m^2 office block. [2] Because of the limited supply of developable land in Central, the project had drawn attention from a number of major property developers in Hong Kong.

Henderson Land

Company Profile and Business Strategy

Incorporated in January 1976, Henderson Land was founded by Lee Shau-kee, one of the richest men in Hong Kong. The company was listed in Hong Kong in July 1981. It was one of the leading property developers in the city, with a primary focus on mass residential development projects. As of early 1996, the Group ranked second in terms of land held for development and third in terms of market capitalisation among its peers. [3]

The Group had two principal subsidiaries, namely Henderson Investment (HI) and Henderson China (HC). HI held an investment property portfolio totalling 120,774m^2 and a development land bank of approximately 74,322m^2, along with other businesses in the hotel and retailing sectors. HI also had equity interests in listed companies such as Hong Kong and China Gas, Hong Kong Ferry and the Miramar Hotel.

In the mid-1990s, HC had invested more than HK$4 billion in the property market in Mainland China. It held interests in 22 projects in major cities such as Beijing, Shanghai and Guangzhou. **Exhibit 3** shows the group structure of Henderson Land.

Henderson Land's strengths lay in its skilful land accumulation strategy and the erection of large-scale housing estates in Hong Kong's new town areas. It had been involved in developing the new towns of Fanling, Tseung Kwan O and Man On Shan, all of which were

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[1] One square metre is approximately equal to 10.763932 square feet.

[2] Morgan Stanley, *Investment Research Asia/Pacific: The Hong Kong & China Gas Company*, 5 January, 1996.

[3] Vicker Ballas Investment Research, *Company Report*: *Henderson Land*, April 1996.

situated in the New Territories. Given the geographical constraints of Hong Kong and the Group's breadth of operations, the Group's future growth would have to depend to some extent on new income sources, notably developments in Mainland China. To this end, Henderson had accumulated a land bank with interests held in strategic sites in Beijing, Shanghai and Guangzhou.

Instead of relying solely on property development sales, which were highly volatile, the management of Henderson Land aimed to enhance the quality of its earnings base by expanding and upgrading its property investment portfolio in Hong Kong. The Group had retained retail podiums in several housing estates and was expanding its office portfolio, and it was expected that the property investment portfolio would generate additional recurrent income for the Group. The HK station project provided it with an outstanding opportunity to add a new, significantly sized landmark Hong Kong Grade A retail and office property asset to its portfolio, and confirmed Henderson Land as a serious competitor in the Central Grade A retail and office rental market.

Financial Position

Henderson Land was in a strong financial position, with huge capital reserves and a strong cash-generating capability [see **Exhibits 4 and 5** for the financial statements of the Group]. The Group enjoyed a competitive edge when purchasing land sites at auctions or through tender. Its strong capital base had provided the Group with greater marketing flexibility. Unlike many smaller developers, Henderson Land could afford to postpone property sales during market downturns.

Henderson Land constantly looked for ways to acquire good sites at reasonable cost for long-term development. In anticipation of improving infrastructure and limited land supply in the urban areas, the Group had been accumulating inexpensive agricultural plots in the New Territories that could eventually be converted for both residential and commercial development at a reasonable premium. The Group had also been quite active in urban redevelopment projects, and had acquired older properties in the Mid-levels (the prime residential district of Hong Kong) ahead of restrictions on plot ratios.

Mr. Lee Shau-kee had long believed that Henderson Land could achieve further growth through investments in commercial projects. When the MTRC invited tenders from property developers for the Hong Kong Station project in June 1995, Mr. Lee thought Henderson Land could not afford to miss the opportunity. A few months earlier, Henderson Land had already successfully won the right to develop the Tung Chung Package One project by forming a consortium with SHKP and three other property companies in Hong Kong. As Mr. Lee sat on the board of SHKP, he thought it would not be too difficult to win the support of SHKP to bid as venture partners for another project, this time the Hong Kong Station development. However, Mr. Lee was also painfully aware of problems that had occurred in past joint-venture projects, particularly when there were complex and time-consuming construction contracts involved. Henderson land had extensive previous experience of joint-venture partners who claimed that their construction company subsidiary could deliver the buildings at cost, so improving all partners' venture profits. This implied that competitive bidding and costly project management arrangements were therefore not necessary, with consequent cost savings. But the construction phase of any development project was notoriously risky, and Henderson Land's profit share in this venture could easily be eroded by construction cost and time overruns. Careful attention was required to the relations between venture partners, where a contracting company's profitability on a project could occur at the expense of the project promoters, which in turn could lead to less attractive initial returns on invested capital. What seemed a very attractive venture could easily turn into a costly disaster with a very long loss-recovery period if the asset was to be held in Henderon Land's commercial property portfolio. Mr. Lee was thus very cautious not to be overly enthusiastic in seeing the

completed development and its potential as a portfolio investment, at the expense of underestimating the huge risks in the development and construction phase.

Forging an Alliance

Sun Hung Kai Properties

SHKP was incorporated and listed in 1972. At the end of 1995, the group had a 3.8 million m^2 landbank, which was the largest and most diversified in Hong Kong. This included 2.26 million m^2 of development properties and 1.31 million m^2 of investment properties.[4] The high quality of its residential properties was recognised by end-users and were traded at a premium to the market. Regional shopping centres within the group's residential projects represented nearly half of its investment portfolio.

SHKP's management had adopted a cautious approach to property development in China. In early 1996, investment in China accounted for only three per cent of the group's total assets and most of the property projects were retained for rental purposes after completion. Due to the group's limited exposure in China, the potential oversupply and uncertainties in the China property market would not have a material impact on the group.

SHKP had a balanced exposure to the commercial, residential and industrial sectors [see **Exhibit 6** for the group's structure]. Apart from continued expansion of its rental portfolio, SHKP invested actively in local infrastructure, with the aim of further enlarging its recurrent income base. The group held interests in the Airport Freighting Forwarding Centre, the Tuen Mun River Trade Terminal and the Route 3 development. These projects were expected to improve the group's earnings in the long term. SHKP's diversification into communications business had already proved to be promising. The digital mobile telephone operation, Smartone, saw subscribers increasing steadily and had already started to make a contribution to the group's earnings. At the end of 1995, SHKP had net debt of HK$9.3 billion. This represented a gearing of 10 per cent. **Exhibits 7 and 8** present the financial statements of the group.

Like Henderson Land, SHKP was interested in the HK Station project not only for its potential profitability and attractiveness as a commercial property asset, but also because it provided an opportunity to participate in a landmark development on Victoria Harbour in Central, Hong Kong. While around forty per cent of its earnings were recurrent from its property investment portfolio, it was also underinvested in Grade A retail and office properties in Central, Hong Kong, traditionally Hong Kong's prime commercial investment property district. SHKP also had subsidiary project management, construction and construction materials suppliers, and routinely sought to draw as many of its construction interests into the delivery of projects. It was seen as a low-risk strategy to tie sales to its related subsidiaries from ventures by its property development activities, and a project of this scale was particularly attractive because of the potentially lucrative construction contracts. It was nevertheless also well aware of the significant risks associated with property development projects with long development times and multiple joint-venture partners.

Hong Kong and China Gas

Lee Shau-kee, however, was not satisfied with setting up a simple 50:50 joint venture between Henderson Land and SHKP for the Hong Kong Station project. To further limit Henderson Land's investment risk and to spread the financing burden, Lee wanted to get one

[4] Daiwa Institute of Research, Hong Kong Equity Research: Sun Hung Kai Properties Limited, January 1996.

of its listed associates, HKG, involved in the bid.[5] Mr Lee was Chairman of both Henderson Land and HKG, and was well aware of HKG's cash-rich position and strong cash-generating capacity. He was confident that HKG's participation in the project would benefit both the company and Henderson Land, because HKG was actively searching for opportunities to invest its strong cashflow wisely in the face of limited growth opportunities. An equity share in a completed HK Station retail and office property was an ideal investment opportunity for HKG.

HKG was the only unregulated public utility company in Hong Kong. It was not subject to any profit or tariff control, and therefore it could pass on the benefits of any efficiency improvements and cost savings to the bottom line, thus benefiting equity investors. The company supplied a processed gas manufactured from naphtha (also known as towngas) to residential, commercial and industrial customers in Hong Kong. It faced little competition from substitutes such as bottled propane and piped LPG. HKG had a main plant in Tai Po, which supplied over 90 per cent of its total output. The company also sold equipment and provided maintenance services. Due to effective cost controls and scale economies, the operating performance of HKG remained strong, notwithstanding the continued slowdown in the growth of installed gas meters.

From the mid-1980s to 1994, the company had managed to grow its customer base by around 70,000 per year. By 1995, however, the annual growth in the customer base fell to 65,000. Given the mature market at home, HKG was hoping to expand into the gas distribution businesses in Southern China. Gas-serving projects were underway in various municipalities in Guangdong Province. In Panyu, HKG had already started supplying gas to customers. However, the customer base remained quite small, and no profit was expected before the year 2000.

Due to the very nature of the utility business and the company's monopoly-like competitive position, HKG had strong cash-generating capabilities [see **Exhibits 9 and 10** for the company's financial statements]. Earnings from the core gas business were somewhat insulated from the overall economy, and the demand for gas was price-inelastic. HKG faced no large competitive threats or immediate regulatory tightening, despite competition from its main substitute, electricity, in the supply of energy – particularly in the residential sector. Calls by the Consumer Council to impose regulatory controls on the company had already been rejected by the Hong Kong Government. With abundant cash on hand and stable operating cashflow, HKG was able to finance most of its property projects through equity. Upcoming gas projects in China could also be easily financed by the company through leverage.

In view of the continued slowdown in the local gas-distribution business and uncertainties over the gas market in Mainland China, HKG had been keen on undertaking property development and investment projects. In addition to the redevelopment of a former plant site at Ma Tau Kok South, the company teamed up with Henderson Land to develop luxurious apartments in Homantin. These projects were expected to provide one-off boosts to HKG's earnings; while in terms of P/E multiples, HKG was trading at a premium of over 40 per cent relative to the property investment companies in Hong Kong in early 1996.[6] Nevertheless, some minority shareholders were concerned about the company's growing presence in the local property market. Some shareholders feared that active involvement in the property sector would have a negative impact on the company's stock valuation, and also questioned HKG management's experience and ability to compete in the highly competitive property development industry. They also raised questions about the company's diversification

[5] Henderson Investment Limited, which was majority owned by Henderson Land, held a 32.32 per cent interest in HKG [see **Exhibit 3**].
[6] Morgan Stanley, *Investment Research Asia/Pacific: The Hong Kong & China Gas Company*, 5 January, 1996.

strategy and the risks associated with it – while there were potential tied sales to HKG from participating in residential developments from towngas customers, commercial developments such as HK Station, in which HKG were simply equity partners, were viewed as questionable.

Bank of China

For both financing and political reasons, Lee Shau-kee was also eager to solicit support from Bank of China (BOC) to bid for the Hong Kong Station project. The participation of this state-owned Chinese bank could be valuable to the consortium, given that the size and the significance of the project had drawn attention from the PRC government. Also, Henderson Land was keen to expand its commercial association with BOC, given BOC's dominant role in China and Henderson Land's growing interests in China. Given that property development projects were highly working-capital-intensive everywhere, good relations with the banking sector allowed developers to raise funds quickly when opportunities presented themselves. There were many likely future benefits to having good relations with BOC, both in China and in Hong Kong.

Bank of China was the second-largest bank in China, and one of the four government-owned former specialised banks that dominated the Chinese banking system.[7] It was established in 1912 in Shanghai by the Chinese government with some private injection of capital. Since the nationalisation of the banking sector when the Communists rose to power, it had become wholly owned by the Chinese State. As of the end of 1995, BOC had 12,300 branches and sub-branches in China, with a headcount of about 194,000.[8] On top of its presence in Hong Kong and Macau, BOC had overseas operations covering other Asian countries, Europe and the Americas.

Prior to the banking reform carried out in the 1980s, BOC had been focusing on foreign currency business and international activities. Subsequent to banking reforms, the bank faced tough competition in its foreign-exchange activities with the opening of some small but flexible foreign banks in China. It also lagged behind other specialised banks in local currency transactions. Nevertheless, BOC was one of the leaders in the peripheral banking services business. It had participated actively in merchant banking activities via its Hong Kong branch and subsidiaries, and was becoming more active in the Hong Kong market for Asian and international loan syndications. The bank was the most profitable among the four big specialised banks, as a large proportion of its assets were maintained outside China. In fact, its overseas branches were said to have accounted for about 30 per cent of its total profits.

BOC's operations in Hong Kong had been extremely profitable. With the approach of 1997, the bank enjoyed an expanding role in Hong Kong and it would join the Hongkong Bank as one of the city's note-issuing banks. In the run-up to 1997, when Hong Kong would be returned to Chinese sovereignty, no important decisions regarding the banking sector were made without consultations with BOC. In 1994, BOC witnessed its first issue of Hong Kong dollar banknotes.[9] Its chairman was eligible to take his turn in the rotation of the chair of the Hong Kong Association of Banks, an unofficial but influential organisation in the banking industry. The BOC group as a whole represented about one quarter of bank deposits in Hong Kong and nearly half in Macau. BOC also directly owned six of the sister banks of its group.

In 1995, BOC recorded a fall in its net profits, due to the surge in bad loans charges and increased personnel costs and operating expenses. Both the bank's fee income and gains from

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[7] The other three specialised banks were the Industrial and Commercial Bank of China, the China Construction Bank and the Agricultural Bank of China.
[8] Thomson BankWatch, Inc., *Bank of China*, 11 November, 1996.
[9] The Hong Kong Monetary Authority effectively regulated the banking sector and managed Hong Kong's Currency Board Arrangement. There were three note-issuing banks, HSBC, Standard Chartered Bank and BOC.

foreign-exchange accounts showed a decrease as a result of stiff competition in the market. **Exhibits 11 and 12** present the financial statements of BOC.

BOC was planning to further diversify and strengthen its business in Hong Kong, as the arrival of the three specialised Chinese banks in late 1995 was expected to pose a threat to BOC's position in the city. In late 1995, BOC saw the potential of the Hong Kong Station Development project, and was eager to expand its associations with the big, financially sophisticated Hong Kong developers, which collectively accounted for a large proportion of big development loan syndications in Hong Kong, China and the region. The HK Station project provided it with an opportunity to diversify into the property business to strengthen its presence in and commitment to the city, and enhance its international image. Simultaneously, it would have an opportunity to participate in syndicating the large development loans that could be required in the HK Station project, with an eye on future business with the big Hong Kong developers. There was some concern, however, about how to indicate its enthusiasm – should it commit to an equity stake in the development or simply rely on *possibly* participating in any development loan syndications that *might* follow? There was concern about the illiquidity of an equity stake owned by a commercial bank in a very big commercial property asset, and there were also concerns about BOC's inexperience with large-scale property development and investment projects – particularly given the risks associated with the construction phase of a project the scale of the HK Station.

The MTRC

The MTRC was established in 1975 under the Mass Transit Railway Corporate Ordinance (Cap 270) to construct and operate a mass transit railway system in Hong Kong. The company was a statutory corporation wholly owned by the Hong Kong Government. The MTR commenced service on 1 October, 1979, carrying 285,000 passengers that day on a single 8.6-kilometre nine-station route. By 1995, the MTR network was split into three lines — the Kwun Tong, Tsuen Wan and Island Lines. These lines commenced operations in the 1980s. The proposed Tung Chung Line and the Airport Express Line were under development. They were constructed in conjunction with the infrastructure projects associated with the Chek Lap Kok Airport, and were expected to commence operations in 1998 [please refer back to **Exhibit 1**]. The Airport Express Line was to terminate in the superbly located new Hong Kong Station Development in Central, Hong Kong. Of course, any bid for the development rights to HK Station would have to satisfy the MTRC's objectives, in terms of the structure and content of the bid.

After 16 years of operation, the MTRC had almost recovered all its earlier losses. In the MTRC's 1995 annual report, its Chairman Mr. Jack So commented that much of the credit was due to the MTRC's clarity of purpose. The MTRC aimed to plan its finances in a prudent manner, ensuring that new investments were made only when it had sufficient funding capacity and where the new investment could generate a commercially acceptable rate of return. Over the years, Government equity helped to finance the expansion of the MTR network at a lower cost of capital than would otherwise have been obtainable from the capital markets by an enterprise with massive capital investment requirements and a heavy initial debt. For example, to finance the construction of the Airport Express Line, the Government had injected HK$23.7 billion into the MTRC.

Given that the MTRC had to build to additional lines to the Airport, however, the road to profitability was expected to be long and tough in the future. The MTRC knew that investments in two more lines could possibly cause it financial distress. Like most other overseas railway companies, the MTRC's profits were significantly affected by depreciation

and interest charges during its initial years of operation. Nevertheless, the MTRC hoped that profits derived from property development could counteract the effect of depreciation and interest charges and bolster its bottom line.

The MTRC obtained development rights to the five airport route sites from the Government at full market value land premium.[10] The premium would be recovered from the developers, and applied to the construction of the new Tung Chung Line and the Airport Express. The developers were also expected to pay for all construction and financing of the development of these sites, including the station buildings. According to its business plan, the MTRC was expected to break even in its first few years of operation in the new Tung Chung and Airport Express lines, and it was consequently eager to obtain the highest bids possible for the development rights to all its sites, including the Hong Kong Station. The company was expected to achieve net profit in its early years of operation after receiving the share of profits from property developments along the route. Operating profits after depreciation were expected to increase steadily in line with rising passengers and revenue.

In March 1995, the MTRC awarded the first major airport railway development rights at the Tung Chung Station (first phase) to a consortium comprising Henderson Land, SHKP, Hang Lung Development, New World Development and Swire Properties. The development cost of the site was expected to be HK$10 billion, including a land premium of around HK$2.1 billion. In June 1995, the MTRC began to invite tenders for developing the Hong Kong Station site. During the process of selection, the MTRC had to judge the financial and technical ability of the developers to ensure that they could deliver the development to the required level of excellence in design, construction and maintenance.

The MTRC also planned to build a special clause into the formal tender of the Hong Kong Station project. The company had made a preliminary commitment to set aside about 46,451m^2 of space in one of the three office towers for several Government-related organisations, which included the Hong Kong Monetary Authority and the Hong Kong Futures Exchange. Although the various organisations had not paid any deposits on the potential space, the MTRC would build a clause into formal tendering to accommodate these institutions. This would require the ultimate winner to set aside a specified amount of space for these various bodies.

Some bidders for the Hong Kong Station project expressed their concerns about not being able to determine how much they would need to pay the Government for land premiums if they won the bid. To address these concerns, the MTRC agreed to allow winning bidders to withdraw if they considered the land premium asked by the Government to be excessive. However, that option stated in the tender document would only be valid if independent expert valuation of the premiums was less than 80 per cent of the Government's assessment.[11] This meant that developers' option to drop out could be limited if the project ended up being too costly.

The MTRC's priorities for the Hong Kong Station were thus clear. It needed to raise as much income as it could from the sale of development rights at its stations, including the Hong Kong Station site, because it needed capital to develop the Airport Express and Tung Chung Lines, in addition to requiring developers to build MTRC stations on the new line into whatever development took place. Technically weak bids simply could not be considered,

[10] "Premium" refers to what is known in some jurisdictions as a "betterment tax" or "development tax". For newly reclaimed land, though, it could simply be interpreted as the price that the land could fetch under competitive market circumstances. Typically the HK Government would auction development rights to these sites, while it retained long-term ownership under a land leasehold system. Under circumstances described here, Government would determine the amount, which would be paid by the developer that won the bid from MTRC. The proceeds are thus applied to cover the cost of developing the railway itself.

[11] Sito, P., and Ko, K., "Bidders hit out at land premiums", *South China Morning Post*, 13 January, 1996.

there was no margin for error or delay in development of the railway station sites. Therefore highly reputable and technically able developers were favoured. Similarly, financially weak consortia could not be considered, because the amounts of capital were extremely large, and some of the amounts were to be paid in large single payments. Access to capital markets and the financial capacity of bidders were thus essential criteria to the MTRC.

Analysing the Project

By the end of 1995, Henderson Land, SHKP, HKG and BOC had reached a preliminary agreement to form a consortium for the bid. They also began to assess the viability of the project in detail. In analysing the project, each party had different concerns and objectives. **Exhibit 13** provides further information on the financial position of each company.

Costs and Land Premium

The winner of the Hong Kong Station project would be required to reimburse the MTRC before the end of 1996 for HK$1.6 billion of costs associated with the foundation and other related work. The project was expected to be sub-divided into six sites, to be handed over to the winning developer in stages between 1997 and 2000. The amount of land premium payable to the Government had yet to be negotiated. It would likely be decided three to five months before each sub-site was ready for transfer, when the related foundation work was near completion. **Exhibit 14A** shows the estimated total land premium for the project, which was expected to be slightly more than HK$22 billion.[12] The actual premium paid, however, could be crucial to profitability.

Timing and Payment Schedule

The land premium for the final site was expected to be fixed before the end of 1999. Thus the financing burden for a total project cost of about HK$39.6 billion was expected to be spread irregularly over six years from 1996 to 2001. The estimated total cost comprised HK$22 billion for the land premium, HK$1.6 billion for the initial site formation payment, HK$7 billion for construction and HK$8.6 billion for imputed interest costs [**see Exhibit 14B**].

Rental Income and Yield

If the entire Hong Kong Station project was complete, it could generate an estimated full year gross rental of around HK$3.7 billion. This would represent a 9.3 per cent yield on cost. After deducting outgoings, (say 10 per cent of gross rental and interest averaging one per cent over HIBOR or 7 per cent) pre-tax profit to be shared between the MTRC and the consortium would be less than HK$600 million. The estimates was based on rental rates of 1996. However, a 15 per cent fall in rents from the 1996 level would still allow the project to break even.[13]

As it usually takes years to lease property and build a critical mass of tenants, this project was likely to produce a negative yield in the initial years. However, long-term prospects were strong, given the prime location and limited future supply of land in Central. **Exhibit 15** shows the estimated rental income, yield and valuation of the project.

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[12] The estimate was based on the land premium of the redevelopment projects at Central Pier and Hilton Plaza. (Source: Merrill Lynch, SHKP/Henderson Land Take the Central Reclamation, 3 April, 1996.)

[13] As a very rough feasibility estimate, these figures follow a project accounting-type approach and initial yield valuations. This approach is typical of first-line development feasibility approaches in practice, but does not assess the project in DCF terms and is often misleading.

Profitability and Project Viability

For most of the previous tenders for property projects along railway routes, developers usually surrendered just over half of the estimated development profits to the MTRC (i.e., sale price less cost). If the completed project was retained for investment, half the net revenue (after deducting outgoings, imputed interest cost and tax) would usually be shared by the MTRC. Sometimes, developers increased the incentive to the MTRC by prepaying a portion of the estimated profit.

The SHKP-Henderson led consortium expected fierce competition for the Hong Kong Station Project. To make their bid more competitive, the parties planned to take a fresh approach to the tender. Instead of following the usual practice of sharing sale profits with the MTRC, the consortium proposed to award the MTRC an added incentive by surrendering part of the completed project (mainly offices). As the retail and hotel portion would normally be retained for investment, the MTRC could also have the rights to manage the property in addition to revenue sharing. Given the MTRC's estimated profit share at 56 per cent and assuming that the entire project could be sold at an estimated valuation of HK$48.2 billion, the net after-tax margin to the developers was estimated at 8.1 per cent on total committed costs, or 6.7 per cent on total estimated sales proceeds.[14] If the developers were to carry out construction themselves, the net margin could be raised to 9.4 per cent and 7.7 per cent on cost and sales, respectively [**see Exhibit 16**]

Members of the consortium, however, were concerned that the nearly 180,000m^2 retail podium would be too big to run. They had considered the possibility of cutting the number of retail premises to be built for the project and replacing the three proposed smaller office towers with two towers, one of which would be a 400-metre-high property with 88 storeys. However, any changes to the MTRC's initial proposal had to be approved by the railway company, and the proposal to build a 88-storey skyscraper would also require approval from the Town Planning Board.

Finalising the Consortium

The consortium members finally agreed on their respective share of the Hong Kong Station development project. Ownership in the consortium was finalised as follows:

- SHKP: 47.5%
- Henderson Land: 32.5%
- HKG: 15%
- BOC: 5%

These contributions were based on a projected project cost of HK$39,593 million [**Exhibit 14B**].

Although there was no intermediate-term pressure to raise funds for the project, some members of the consortium considered that the bid for the project could provide a good reason for raising extra capital for use in the longer term. In November 1995, Henderson Land began to arrange a US$300 million Samurai bond to improve its financial position. The group planned to use the proceeds to repay its borrowings in Hong Kong. Henderson Land had also obtained a HK$2.65 billion five-year syndicated loan facility, which would be followed by the arrangement of another HK$1.65 billion syndicated loan facility in 1996. It

[14] Assume profits tax rate = 16%.

was expected that these moves would strengthen the group's working capital for future investments.

Of all the members in the consortium, SHKP's financial strength was best. The group was less aggressive than Henderson Land at land auctions and was therefore able to retain a significant amount of cash on hand. Given a strong balance sheet and stable recurrent income, SHKP would have sufficient resources for financing the project. Likewise, the strong cash-generating capabilities of HKG, along with its strong financial position enabled it to participate in the venture without relying on external funding. With comfortable liquidity and financial backing from the Ministry of Finance, BOC was also fully capable of investing in such a large project. On the downside of such a venture was that the two non-property members, HKG and BOC, would be exposed to the vagaries of the property market, but the risks were expected to be limited to due the presence of two experienced property partners.

The Competitors

The Hong Kong Station development project had drawn strong bids from local and overseas companies. Apart from the consortium led by Henderson Land and SHKP, there was a group led by Sino Land, Great Eagle Holdings, Nan Fung Development and the Government of Singapore Investment Corporation; a coalition of Cheung Kong Holdings; Hutchison Whampoa and Citic Pacific; and a joint venture formed by Hysan Development, New World Development and Hang Lung Development. Hongkong Land Holdings Limited, the largest landlord in the Central Business District, had also submitted a bid on its own. Intense bidding for this project in Central reflected developers' strong confidence in prospects for the Hong Kong property market. Altogether, five Hong Kong consortiums submitted bids to develop the Hong Kong Station project in January 1996. To keep competitors in the dark, most bidders for the project left it to the last minute. A couple of consortiums added their own clauses to their bids, aiming to give themselves better protection against being lumbered with an unviable project of such a huge scale.

After the close of the tenders on 12 January, 1996, the consortium led by Henderson Land and SHKP was tipped as the favourite to win. On 30 March, 1996, the MTRC gave little surprise to the market by awarding the prestigious Hong Kong Station project to the SHKP-Henderson Land consortium. The awarding of the project to this local Chinese-led consortium was expected to break the long-standing dominance of Hongkong Land in the development of prime office properties in Central. Hongkong Land had been the biggest commercial landlord in core Central, holding about 464,514m^2 of Grade A retail and office space, estimated at around 40 per cent of total Grade A stock in the district.

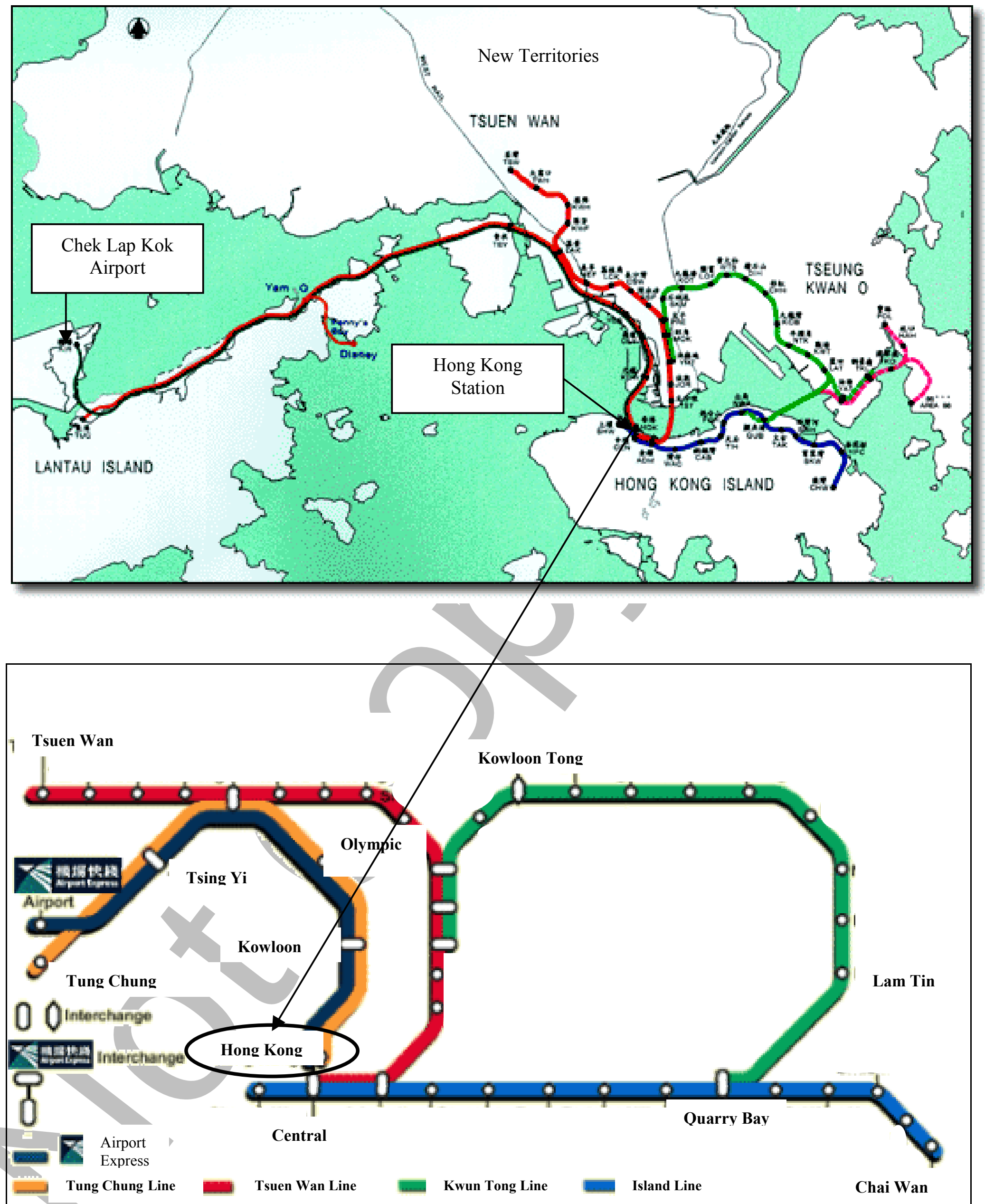
SHKP's and Henderson's extensive expertise in property development and financial backing from BOC created a perfect group to undertake the project. Of all the bidders, they offered the most generous terms in the sharing or profits with the MTRC. Unlike most MTRC contracts, in which it shared profits after the sale of properties, the consortium would allow the MTRC to share the floor area of completed properties in the project.

Protecting the Interests of the Firm

As the excitement surrounding the tender subsided, the Chairman of Henderson Land, Lee Shau-kee's major concerns were to safeguard the group's interests in the Hong Kong Station Development project. He was aware that incentive conflicts existed among the participants, as both Henderson Land and SHKP had construction company subsidiaries that would expect to participate in the project. How could he ensure that the cost of construction would not get

out of hand and reduce Henderson Land's share of profit? What factors would affect the overall venture value and hence the Group's equity share? He looked forward to an imminent briefing by the Director, Development Management, to the Board of Henderson Land.

EXHIBIT 1A
MAP OF HONG KONG AND THE MTR NETWORK



Note: As of 1995, the Tung Chung Line and the Airport Express were not yet completed. They did not commence operations until 1998.

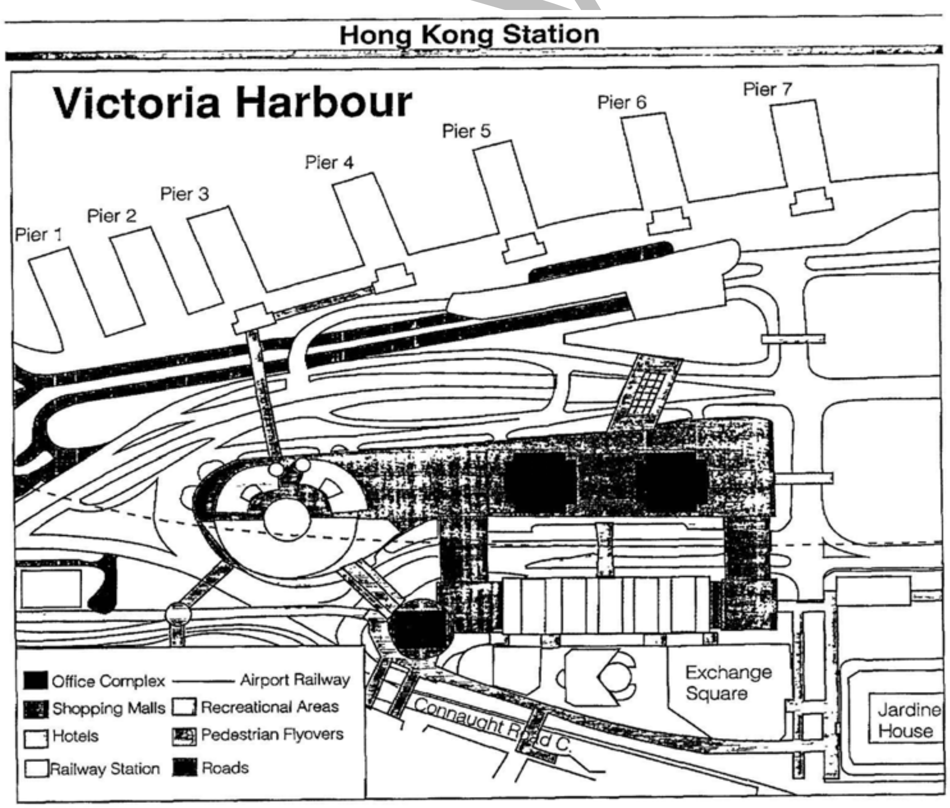
Sources: Hong Kong SAR Government, MTR Privatisation Share Offer and the MTR Corporation Limited, URL: http://www.mtr.com.hk/train/index.html, October 2000, and URL: http://www.mtr.com.hk/eng/homepage/e_corp_frame.html, February 2003.

EXHIBIT 2A
DEVELOPABLE AREAS OF FIVE MAJOR AIRPORT ROUTE SITES

('000 m^2)	Residential Floor Area	Office Floor Area	Retail Floor Area	Estimated No. of Hotel Rooms	Total Floor Area
Hong Kong Central	-	*223.6*	*90.0*	*112.4*	*413.1*
Kowloon West	547.0	264.5	89.5	223.0	1,090.0
Tai Kok Tsui	390.0	111.0	65.0	106.8	628.0
Tsing Yi	245.7	-	46.2	-	292.0
Tung Chung	750.1	15.0	56.0	37.2	843.2
Total	1,932.8	614.2	346.7	479.4	3,269.0

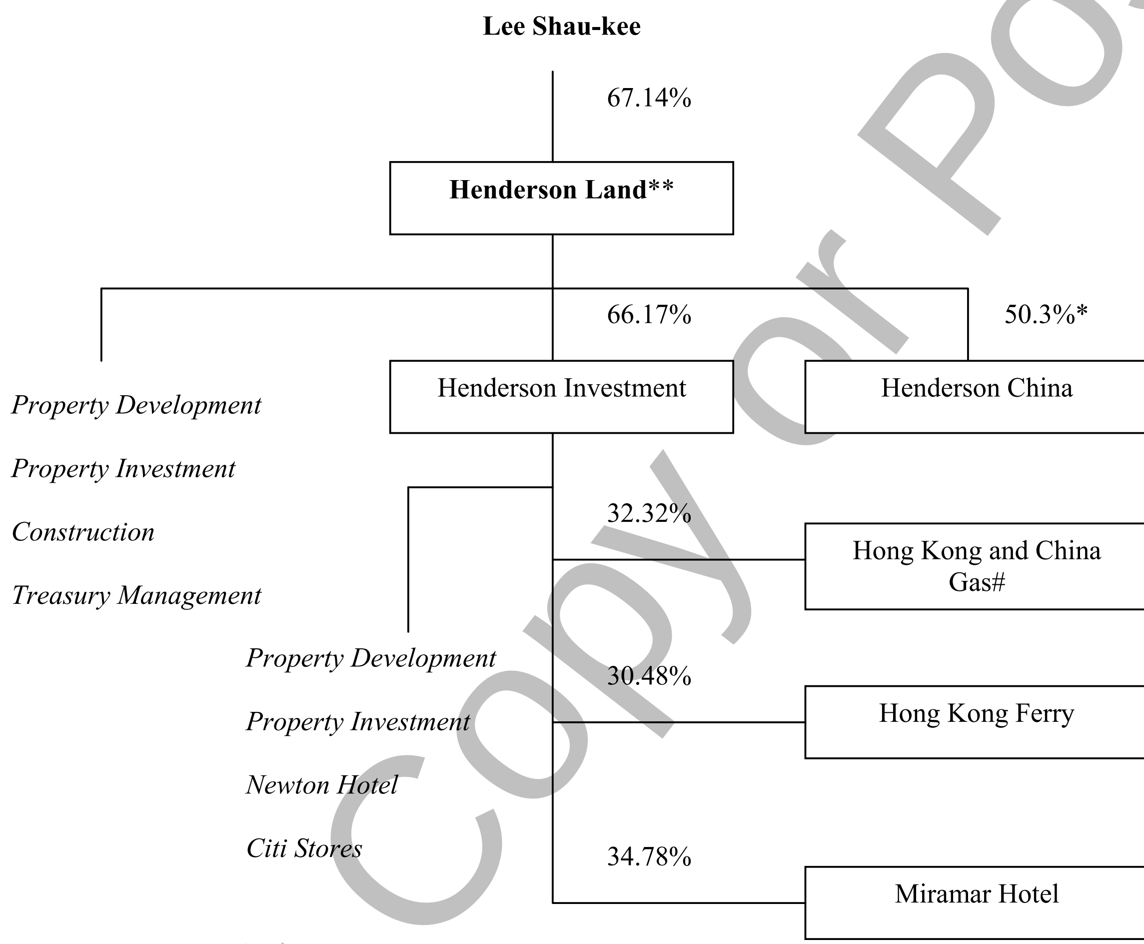
Source: Merrill Lynch, Real Estate Hong Kong: SHKP/Henderson Land Take the Central Reclamation, 3 April, 1996.

EXHIBIT 2B
THE HONG KONG STATION PROJECT



Source: Vickers Ballas, Hong Kong, Company Report: Henderson Land, April 1996.

EXHIBIT 3
HENDERSON LAND: GROUP STRUCTURE (1996)



* After the conversion of outstanding bonds
\# State Express Ltd is HKG's building contractor subsidiary.
** E Man Construction Co Ltd and Heng Tat Construction Co Ltd are Henderson Land's building contractor subsidiaries.

Listed company

Source: Vicker Ballas Investment Research, *Company Report*: *Henderson Land*, April 1996.

EXHIBIT 4
HENDERSON LAND – BALANCE SHEET

As at 30 June Figures in HK$ million	1995	1994	1993
Fixed assets			
- properties	31,599.8	22,831.9	11,610.7
- hotel properties	1,499.0	1,494.0	-
- others	93.3	89.6	75.6
	33,192.1	24,415.5	11,686.3
Investments			
- listed associates	10,498.1	10,353.7	2,956.2
- unlisted associates	4,094.4	3,212.1	2,625.0
- interest in PRC joint ventures	23.2	174.6	201.8
- net inv. in leasing partnership	-	3.0	12.2
- listed shares, at cost (net)	6.6	7.6	-
- unlisted shares, at cost	69.6	65.0	65.1
	14,691.9	13,816.0	5,860.3
Current assets			
- cash and equivalent	691.2	1,169.0	1,259.3
- land exchange entitlements	374.0	363.3	1,629.9
- property acq. deposits	120.8	654.6	66.5
- instalments receivables	1,009.9	870.5	385.5
- properties for sale/under dev.	13,923.2	11,990.7	7,726.8
- retail stocks for sale	14.6	11.1	12.1
- construction work in progress	198.3	192.1	129.1
- debtors	1,588.7	1,273.7	360.9
	17,920.7	16,525.0	11,570.1
Deferred assets			
- instalments receivable on sales of flats	2,140.7	1,179.5	651.4
Current liabilities			
- bank and other loans	2,310.1	2,120.2	1,491.8
- sale & rental deposits	1,290.8	2,050.1	2,464.7
- creditors	1,333.1	893.4	720.7
- taxation	1,904.2	1,410.3	642.8
- dividends payable	3,670.8	3,511.2	2,984.5
	10,509.0	9,985.2	8,304.5
Deferred liabilities			
- bank and other loans	10,464.6	6,665.0	900.0
- mandatorily convertible guaranteed bonds	3,646.0	3,529.6	-
- land premium	0.6	0.9	2.6
- amount due (to)/from group companies	1.4	(15.1)	(8.9)
- minority interests	7,380.0	7,171.5	2,816.0
	21,492.6	17,351.9	3,709.7
Shareholders' funds			
Represented by			
Share capital	3,192.0	3,192.0	3,192.0
Reserves	32,751.8	25,406.9	14,561.9
	35,943.8	28,598.9	17,753.9

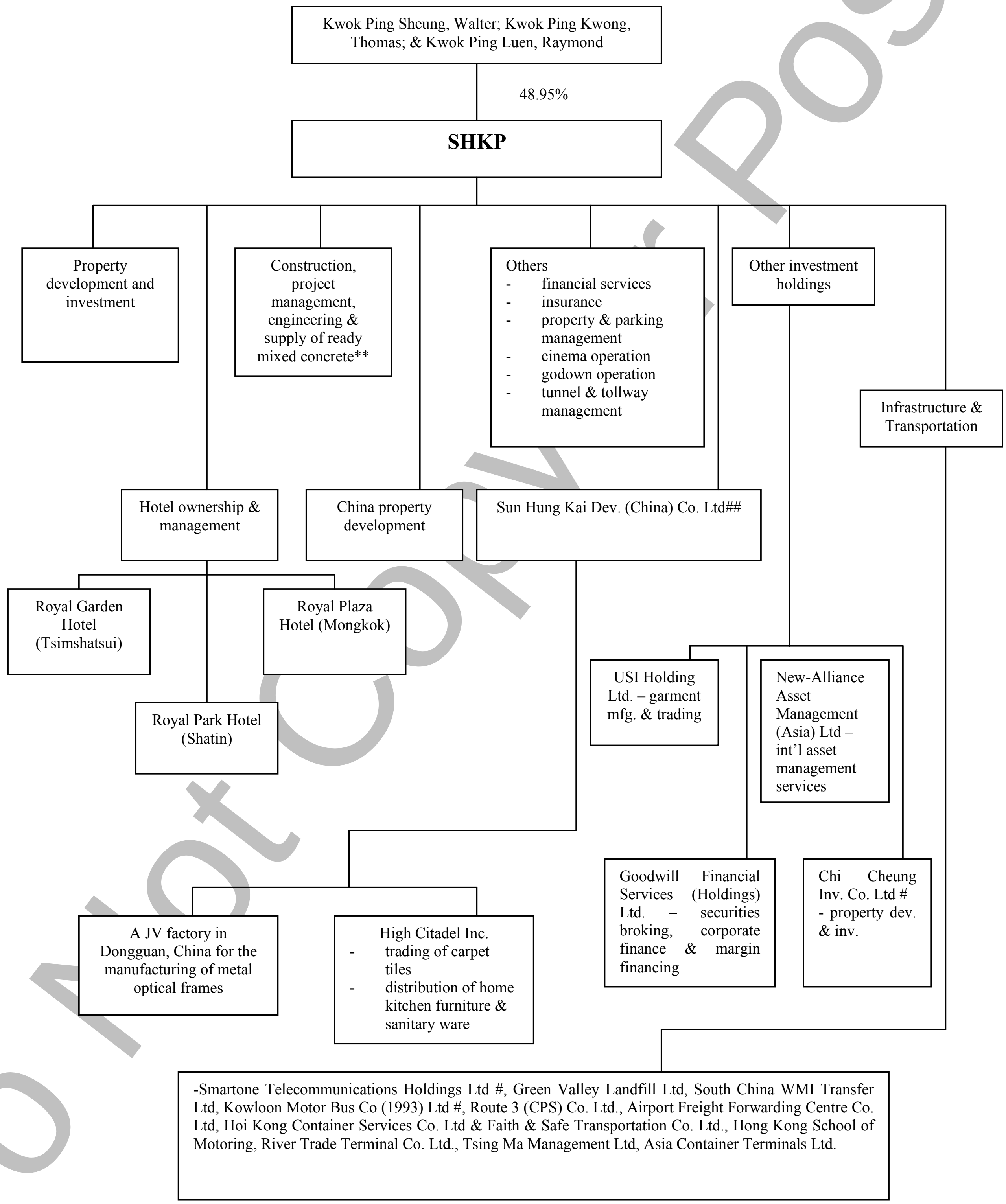
Source: Wardley Data Services Limited

EXHIBIT 5
HENDERSON LAND – INCOME STATEMENT

Year ended 30 June Figures in HK$ million	**1995**	**1994**	**1993**
Total interest income	578.55	399.55	279.29
Other operating income	3,008.34	2,765.66	1,989.49
Net sales or revenue	11,170.69	9,967.79	6,113.92
Cost of goods sold	(3,191.71)	(3,079.50)	(2,235.21)
Total interest expense	(351.17)	(47.94)	(0.39)
Depreciation and amortisation	(44.01)	(37.78)	(33.17)
Total operating expenses	(3,586.89)	(3,165.21)	(2,268.77)
Operating income	7,583.81	6,802.59	3,845.15
Other income/expense (net)	-	7.10	55.59
Pretax income	7,583.81	6,809.69	3,900.74
Income taxes	(1,106.58)	(969.30)	(478.85)
Minority interest	(637.39)	(417.00)	(282.46)
Equity in earnings	1,188.24	614.62	867.40
Net income	7,028.08	6,038.01	4,006.82

Source: Annual Reports

EXHIBIT 6
SUN HUNG KAI PROPERTIES – GROUP STRUCTURE (1996)



listed in Hong Kong ** Building construction subsidiaries are Sanfield Building Contractors Ltd, Manfield Building Contractors Ltd and Shun Fai Construction Co. Ltd

Source: Wardley Data Services Limited

EXHIBIT 7
SUN HUNG KAI PROPERTIES – BALANCE SHEET

As at 30 June
Figures in HK$ million

	1995	1994	1993
Fixed assets			
- properties	76,254	79,091	49,243
- land pending construction	20,685	18,456	8,427
- equipment, furniture & others	120	118	66
	97,059	97,665	57,736
Investments			
- listed associates at cost	674	605	582
- unlisted associates at cost	1,940	1,558	333
- investment in associates	5,057	5,150	2,855
- listed shares at cost	71	71	72
- unlisted shares at cost	116	95	76
- due from investee companies	222	-	-
- secured loans	2,171	2,436	1,400
	10,251	9,915	5,318
Current assets			
- deposits, cash & equivalent	6,558	2,766	3,959
- listed shares	618	815	455
- short term loans	1,227	1,006	881
- properties under development	8,312	11,738	6,307
- completed properties for sale	2,298	1,129	1,397
- stocks & work in progress	42	141	111
- debtors	2,107	2,933	3,280
	21,162	20,528	16,390
Current liabilities			
- bank & other loans	1,394	892	2,530
- customers' deposits & bills payable	2,572	1,271	2,119
- creditors	3,547	5,763	3,634
- taxation	3,017	2,519	1,613
- dividend payable	3,603	3,231	2,420
	14,133	13,676	12,316
Deferred liabilities			
- bank & other deposits	14,440	13,372	7,031
- properties sales deposits	1,408	4,493	1,819
- deferred income	-	-	-
- minority interests	2,288	865	348
	18,136	18,730	9,198
Shareholders' funds			
Represented by			
Share capital	1,162	1,162	968
Reserves	95,041	94,540	56,962
	96,203	95,702	57,930

Source: Wardley Data Services Limited

EXHIBIT 8
SUN HUNG KAI PROPERTIES – INCOME STATEMENT

Year ended 30 June Figures in HK$ million	**1995**	**1994**	**1993**
Total interest income	728.00	505.00	414.00
Other operating income	15,068.00	13,937.00	10,353.00
Net sales or revenue	19,845.00	17,780.00	13,475.00
Cost of goods sold	(7,294.00)	(7,846.00)	(5,548.00)
Total interest expense	(1,131.00)	(722.00)	(493.00)
Depreciation and amortisation	(49.00)	(42.00)	(34.00)
Total operating expenses	(15,796.00)	(14,442.00)	(10,767.00)
Operating income	11,371.00	9,170.00	7,400.00
Other income/expense (net)	13.00	556.00	-
Pre-tax income	11,384.00	9,726.00	7,400.00
Income taxes	(1,405.00)	(1,260.00)	(985.00)
Minority interest	(24.00)	(59.00)	(2.00)
Equity in earnings	408.00	412.00	279.00
Net income	10,363.00	8,819.00	6,692.00

Source: Annual Reports

EXHIBIT 9
HONG KONG AND CHINA GAS – BALANCE SHEET

As at 31 December
Figures in HK$ million

	1995	1994	1993
Fixed assets			
- land & properties under development	4,808.5	4,796.0	4,691.8
- buildings, plant & equipment	2,213.6	2,155.4	2,159.4
- mains & services	2,593.4	2,306.6	2,140.3
- meters & installations	258.8	286.9	287.1
- capital work in progress	609.3	511.5	304.5
	10,483.6	10,056.4	9,583.1
Investments			
- leasing partnerships, less amount amortised	-	-	0.8
- loan to an associate	627.4	-	-
	627.4	-	0.8
Current assets			
- deposits, cash & equivalent	3,521.1	1,888.1	861.5
- stores & materials	252.5	228.0	239.8
- work in progress	116.9	126.8	121.7
- unlisted investment at cost	15.5	61.8	-
- listed investment at cost (net)	68.5	10.7	-
- loan receivable	-	220.0	-
- housing loans to staff	175.4	157.8	110.5
- debtors	402.3	294.0	270.0
	4,552.2	2,987.2	1,603.5
Current liabilities			
- bank borrowings	1,069.5	1,078.9	614.6
- bills payable	5.7	14.5	17.6
- land premium	-	-	-
- creditors	430.3	463.1	369.5
- taxation	94.4	23.4	81.4
- dividend payable	572.2	476.0	372.2
	2,172.1	2,055.9	1,455.3
Deferred liabilities			
- bank borrowings	1,400.0	-	370.0
- customers' deposits	509.1	442.6	383.8
- repairs & maintenance provision	40.0	40.0	47.1
- bills payable	-	5.7	20.2
- guaranteed debentures	400.0	200.0	200.0
- land premium	-	-	-
- deferred taxation	56.9	64.0	75.4
- minority interests	28.3	-	-
	2,434.3	752.3	1,096.5
Shareholders' funds			
Represented by			
Share capital	621.9	517.4	404.6
Reserves	10,434.9	9,718.0	8,231.0
	11,056.8	10,235.4	8,635.6

Source: Wardley Data Services Limited

EXHIBIT 10
HONG KONG AND CHINA GAS – INCOME STATEMENT

Year ended 31 December Figures in HK$ million	**1995**	**1994**	**1993**
Net sales or revenue	4,252.7	3,718.4	3,259.6
Cost of goods sold	(2,165.7)	(1,924.8)	(1,780.5)
Depreciation & amortisation	(357.4)	(299.9)	(265.1)
Total operating expenses	(2,523.1)	(2,224.7)	(2,045.6)
Operating income	1,729.6	1,493.7	1,214.0
Non-operating interest income	267.8	106.0	37.3
Other income/expenses (net)	9.0	1.4	-
Interest expense	(171.3)	(80.6)	(67.2)
Interest capitalised	0	0	10.5
Pretax income	1,835.1	1,520.5	1,194.6
Income taxes	(200.1)	(152.6)	(59.0)
Minority interest	0.5	-	-
Net income	1,635.5	1,367.9	1,135.6

Source: Annual Reports

EXHIBIT 11
BANK OF CHINA – BALANCE SHEET

As at 31 December Figures in RMB million	**1995**	**1994**	**1993**
Assets			
Cash and equivalents	847,826.28	759,601.50	432,678.90
Customer liability on acceptance	397,263.39	342,798.92	357,944.11
Total investments	229,460.05	177,781.18	130,446.63
Loans	1,090,304.28	1,015,754.45	691,717.27
Net PP&E	25,866.96	19,425.11	12,791.39
Other assets	(324,483.17)	(239,664.96)	320,841.49
Total assets	2,266,237.79	2,075,696.19	1,946,419.78
Liabilities and equity			
Total deposits	2,004,906.72	1,826,773.17	1,174,057.50
Long-term debt	23,990.64	27,974.41	15,130.48
Other liabilities	134,516.53	132,408.19	682,390.09
Total liabilities	2,163,413.89	1,987,155.77	1,871,578.07
Common stock	52,000.00	30,000.00	30,000.00
Capital surplus	13,888.08	26,641.03	14,349.56
Other appropriated reserves	29,677.41	23,525.28	18,167.57
Unappropriated reserves	7,258.42	8,374.11	12,324.59
Common shareholders equity	102,823.90	88,540.42	74,841.71
Total liabilities and equity	2,266,237.79	2,075,696.19	1,946,419.78

1 RMB = US$0.12079 = HK$0.93

Source: Annual Reports

EXHIBIT 12
BANK OF CHINA – INCOME STATEMENT

Year ended 31 December Figures in RMB million	**1995**	**1994**	**1993**
Total interest income	141,116.42	111,883.75	53,658.74
Trust and fiduciary income	20,260.99	20,057.78	9,876.96
Net sales or revenue	161,377.41	131,941.53	63,535.69
Total interest expense	(114,732.51)	(90,430.94)	(41,096.55)
Net interest income	26,383.91	21,452.82	12,562.19
Non-interest expense	(31,181.76)	(25,085.47)	(12,599.69)
Total operating expenses	(145,914.27)	(115,516.40)	(53,696.24)
Other operating income	119,530.36	94,063.59	41,134.05
Operating income	15,463.15	16,425.13	9,839.46
Income taxes	(8,204.73)	(8,051.02)	-
Net income	7,258.42	8,374.11	9,839.46

1 RMB = US$0.12079 = HK$0.93

Source: Annual Reports

EXHIBIT 13
FINANCIAL RATIOS

Henderson Land			
As at 30 June	1995	1994	1993
Profitability (%)			
operating profit margin	67.89	68.32	63.8
return on equity	19.55	21.11	22.57
Gearing (%)			
long-term debt/equity	39.26	35.6	5.03
Liquidity (times)			
current ratio	1.71	1.65	1.39
quick ratio	0.36	0.43	0.45
Coverage (times)			
interest coverage	9.3	15.02	44.77
dividend coverage	1.57	1.46	1.2

SHKP			
As at 30 June	1995	1994	1993
Profitability (%)			
operating profit margin	57.36	54.7	54.92
return on equity	10.77	9.22	11.55
Gearing (%)			
long-term debt/equity	16.47	18.67	15.28
Liquidity (times)			
current ratio	1.5	1.5	1.33
quick ratio	0.74	0.55	0.7
Coverage (times)			
interest coverage	8.95	13.05	14.38
dividend coverage	2.09	1.89	2.03

HKG			
As at 30 June	1995	1994	1993
Profitability (%)			
operating profit margin	43.15	40.89	36.65
return on equity	14.79	13.36	13.15
Gearing (%)			
long-term debt/equity	21.76	7.35	12.7
Liquidity (times)			
current ratio	2.1	1.45	1.1
quick ratio	1.93	1.28	0.85

Coverage (times)			
interest coverage	11.71	19.86	18.78
dividend coverage	1.88	1.84	1.99

BOC			
As at 31 Dec	**1995**	**1994**	**1993**
Profitability (%)			
Operating profit margin	9.58	12.45	15.49
return on equity	7.59	10.67	9.11
Gearing (%)			
long-term debt/equity	23.33	31.6	20.22
Liquidity (times)			
loans/assets	51.00	50.58	52.07
loans/deposits	57.65	57.47	60.28

Source: Wardley Data Services Limited and Thomson BankWatch, Inc., *Bank of China*, 11 November, 1996.

EXHIBIT 14A
SUBSITE DETAILS AND ESTIMATED LAND PREMIUMS

	Office area (m^2)	*Retail area (m^2)*	*Hotel apt. area (m^2)*	*Car park units*	*Premium fixed in*	*Premium HK\$/(m^2)*	*Premium HK\$m*
Site 1	62,000	17,000	-	326	late 96	452.6	4,143
Site 2 and 3	-	73,000	-	307	late 98	557.4	4,715
Site 4	85,001	-	-	354	late 99	483.1	4,758
Site 5	-	-	102,251	34	late 99	334.5	3,962
Site 6	76,651	-	-	320	late 00	511.0	4,538
Subtotal	223,651	90,001	102,251	1,341	-	-	-
						-	
Total	415,903	-	-	-	-	-	**22,115**

EXHIBIT 14B
CASH OUTLAY PROJECTIONS (INCLUDING INTEREST CAPITALISED)

Year to 30 Jun	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**Total**
Premium payments (HK$m)							
Site 1	4,143						4,143
Site 2 and 3			4,715				4,715
Site 4			4,758				4,758
Site 5				3,962			3,962
Site 6					4,538		4,538
Initial MTR payment	1,600						1,600
							22,115
Construction costs (HK$m)							
Site 1	394	656	197	66			1,313
Site 2 and 3			413	825	138		1,375
Site 4				439	732	293	1,464
Site 5				479	798	319	1,596
Site 6					743	743	1,485
Total before interest	6,137	656	10,082	5,771	6,948	1,355	30,948
Interest	313	610	1,134	1,677	2,142	2,769	8,645
Yearly cash outlay	**6,450**	**1,266**	**11,216**	**7,448**	**9,089**	**4,124**	**39,593**
Cumulative outlays	6,450	7,716	18,932	26,380	35,469	39,593	39,593

Source: Merrill Lynch, SHKP/Henderson Land Take the Central Reclamation, 3 April, 1996.

EXHIBIT 15
ESTIMATED RENTAL INCOME, YIELD AND VALUATON

	Area (m^2)	Rental (HK$/$m^2$/month)	Annual yield (%)	Total annual return (HK$m)	Unit value (HK$/$m^2$)	Total value (HK$m)
Office	223,651	699.7	7.8	1,878	929.0	24,074
Retail	90,001	1,023	7.6	1,104	1,393.5	14,531
Hotels/apartments	102,251	505.9	7.5	621	696.8	8,255
Car parks	125	69,965.6	7.8	105	92,902.9	1,341
Total	416,028			3,707		48,201
Full year interest cost at 7%				2,770		

Source: Merrill Lynch, SHKP/Henderson Land Take the Central Reclamation, 3 April, 1996.

EXHIBIT 16
INFERRED DEVELOPER'S MARGINS

	On cost (%)	On Valuation (%)
Pre-tax margin on development cost	21.7	17.9
Net margin less MTR's share (assume 56%)	9.6	7.9
Net after tax margin to the consortium	8.1	6.7
Add margin on construction for consortium	1.2	1.0
Total margin to developer	*9.3*	*7.7*

Source: Merrill Lynch, SHKP/Henderson Land Take the Central Reclamation, 3 April, 1996.