THE HONG KONG INSTITUTE OF
SURVEYORS

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Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong SAR
The People's Republic of China

Dear Sirs,

RESPONSE TO RAIL MERGER BILL

We refer to the invitation by Legislative Council to provide our views to amend the Kowloon-Canton Railway Corporation Ordinance (Cap. 372) and the Mass Transit Railway Ordinance (Cap. 556).

Hong Kong Institute of Surveyors ("HKIS" or "we") is the only professional organisation representing the surveying profession in Hong Kong.

From a surveying profession perspective, we strongly support the existing property package of the rail merger proposal. We believed the proposed property package is to the best interest of all involved parties and the terms are fair and reasonable. Nevertheless, we would like to state out our comments on the property package.

Before we go into commenting whether the proposed property package, including the valuation methodology and price are fair and reasonable. We would like to shift your focus on how Kowloon-Canton Railway Corporation (KCRC) develops land before the merger in order to understand the valuation methodology.

KCRC develops, owns and manages properties along its rails. For property development, KCRC adopts a joint-venture model in inviting property developers to jointly develop properties in sites owned by KCRC. KCRC selects its joint venture partners by public tender for each development based on their development experience, track record, and the terms and conditions of each particular joint venture proposed. Selected property development companies will reimburse KCRC on the planning and advanced work costs, front up with the bulk of the risk capital involved in the development, and share the proceed from ultimate sale of the property according to the apportioning they earlier agreed. The practice under the joint venture agreement requires developers to generally fund the development costs including land premium, construction costs and finance charges upfront.

Going back to the property package proposed under the rail merger proposal, the whole proposal include the purchase of investment properties, property management business and property development rights in respect of six existing KCRC property sites, plus two property sites along Kowloon Southern Link currently held by Government.

香港中環康樂廣場1號怡和大廈8樓801室
Suite 801, 8/F Jardine House, 1 Connaught Place, Central, Hong Kong
Telephone: 2526 3679 Facsimile: 2868 4612 E-mail: info@hkis.org.hk Web Site: www.hkis.org.hk

香港測量師學會

MTR Corporation Limited (MTRCL) will pay $4.91 billion for the rights over the eight property development sites. This figure is based on the Merge Co's expected share of the assessed development profits for the sites. In order to arrive at the developer profit, the independent valuers have made use of the residual valuation based on how KCRC develops land and attains profit. The valuation methodology is firstly to assess the value of the market sales proceeds and deduct the different costs, the net profit is then discounted over the development period to give a present value. As the sites will be developed in conjunction with developer partners, net profit will be apportioned according to their agreement. In essence, MTRCL is replacing KCRC in holding the development rights of the sites and MTRCL is paying KCRC what the latter should be able to realize in terms of its share of development profit as if there is no merger.

The market value of the sale proceeds is based on factual information and forecasts provided by KCRC and the costs to be deducted include the land premium, construction costs, project enabling work costs, tax and financing costs, professional fees, marketing costs, etc.

The independent valuers derived the market sales proceeds based on factors including location, site area, gross floor area, revenue, cost and project implementation programme of each of the eight sites and are therefore believed to be in line with the market. We strongly support the valuation methodology and the valuation results adopted by the independent valuers.

After the merger, the Government will be able to streamline its control over annual flat supply in the public interest under one roof, replacing informal negotiations between MTRCL and KCRC currently in place.

We would like to highlight once again our support to the merger arrangement, in specific, the property package proposal and the valuations done by the independent valuers.

We trust you will find the above useful. Should you wish to discuss further with us any of the above comments, please contact the undersigned by telephone on 2820 2832.

Yours faithfully,
For and on behalf of HKIS

Kam-hung Yu
Vice President of Hong Kong Institute of Surveyors
Chairman of Rail Merger Bill Working Group

c.c. President, HKIS – Mr Chung-hang Wong
Senior Vice President, HKIS – Mr Raymond Chan