香港特別行政區政府 **CB(1)2198/05-06(02)**

The Government of the Hong Kong Special Administrative Region

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環境運輸及工務局
香港花園道美利大廈

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Mr Andy Lau,
Clerk to Transport Panel,
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Hong Kong.

15 September 2006

Dear Andy,

Bills Committee on Rail Merger Bill
Follow-up to meeting on 27 July 2006

At the first Bills Committee meeting on 27 July 2006 to discuss the Rail Merger Bill, Members requested the Administration to provide further information in respect of property package issues, fare-related issues and staff-related issues. The requisite information is enclosed for Members for their information.

Yours sincerely,

(Miss Ida LEE)
for Secretary for the Environment,
Transport and Works

Bills Committee Meeting on 27 July 2006
Further Information of Property Package, Fare-related and Staff-related Issues

Property package issues

(a) Basis and methodology adopted by the professional surveyor appointed by the Government in conducting valuation of the property and related commercial interests included in the property package.

Please refer to Annex I attached.

(b) Details of valuation of the property package of the rail merger proposal.

In response to Members' request at the joint meeting of the Panel on Transport and Panel on Financial Affairs on 23 May 2006, we have provided details on the valuation of the property package vide our letter of 2 June 2006 to the Clerk to Panel on Transport. Please refer to Annex II (site plans and land grant documents not included).

(c) Given the Administration's reply that disclosure of the valuation of individual property sites not yet tendered would cause a disadvantage to the post-merger Corporation (MergeCo) during the future tender process, the Administration was requested to explain, with reference to Government's public works and land sale programme, and Hong Kong Housing Authority's (HKHA) property development projects, how the disclosure of relevant project estimates / open market value (OMVs) had caused disadvantage to the Government or HKHA in the past tender exercises, and whether OMV reserve prices of individual sites as estimated by the Government / HKHA were made known to potential bidders in the past.

The Administration provides project estimates for capital works projects in papers for seeking approval of funding from the Public Works Subcommittee and Finance Committee of LegCo. While potential contractors and service providers interested in such government contracts have access to such estimates, they would need to evaluate their own costs and return in rendering the required works or services and to tender a contract sum competitive enough to win the contract.

The project budgets of HKHA's capital works building projects are approved by the Building Committee (BC) of HKHA. These BC Papers are classified as confidential and will not be disclosed to the public. Potential bidders need to do their own cost evaluation and submit a bona fide tender.

Under the Application List system, a bid reaching at least 80% of the Open Market Value (OMV) assessed by Lands Department will be accepted as a trigger to initiate an auction or tender. To protect public revenue, the site will not be sold unless the highest bid meets or exceeds an OMV reserve price assessed on the day of auction or tender closing. Hence, the successful trigger price does not equate with Lands Department's OMV assessment nor the reserve price of any sale site, which are not disclosed by Government.

Similar to Government's current arrangement for land sale by application, the proposed acquisition of the development rights by MTR Corporation Limited (MTRCL) as part of the merger package contains commercially sensitive information which is not appropriate for disclosure in order not to prejudice the interests of the company and its shareholders. In any event, our professional property valuation consultant has confirmed that the pricing of the property package is fair and reasonable. After payment for such development rights (similar to an "entry fee"), MTRCL would still need to arrange for payment of land premium, construction costs and other development costs and hence bear the business risks (including market and cost risks) in pursuing such developments in the future.

(d) Why the valuation of the eight property development sites conducted by the professional surveyor appointed by the Government would differ significantly from those prepared by other professional valuers as quoted in the press, and whether the properties were disposed of at a severely diminished valuation.

While not in a position to comment on the estimations rendered by other professional surveyors, we would reiterate that the pricing of the property package is fair and reasonable. Our intention is to sell the property package to MTRCL on market terms. The professional property valuation consultant appointed by Government, who has adopted a methodology for property valuation commonly accepted in the market, has confirmed that the pricing of the property package is fair and reasonable.

It is, however, important to note that what MTRCL pays for are only the "development rights" of the development sites (similar to an "entry fee"), which is to be differentiated from paying for the land premium and for the "properties" (i.e. the total value of the completed development). Hence, after payment for such development rights, MTRCL will still need to arrange for the payment of land premium, construction costs and other development costs to complete the development of the properties in the development sites.

We also notice that there are research analysts of reputable investment banks and other brokerage houses who have commented in their research reports that the price to be paid by MTRCL for the property package is “fair” (and hence “slightly disappointing” from MTRCL’s point of view) or even “excessive”.

(e) The triggering mechanism and factors to be considered in invoking the proposed railway property development control mechanism to enable Government to exercise control on the level of flat production arising from the tender programme for railway property developments.

The control mechanism seeks to formalise the existing coordination mechanism which has worked well. Government and MergeCo shall conduct an annual exercise to discuss and draw up a three-year rolling programme on the level of flat production arising from tenders for railway property development. If there are extraordinary circumstances, we expect MergeCo to seek Government's agreement to any revisions. Each case will be looked at on its merits having regard to the overall market conditions and the prevailing housing situation at the time.

(f) **The basis, calculation method and discount rate adopted for projecting the assessed development profits (in present value) associated with the selling of the rights over the property development sites to MTR Corporation Limited (MTRCL).**

Please refer to Annex I attached.

Fare-related issues

(g) Earliest date for fare adjustment under the fare adjustment mechanism (FAM).

Under the merger package, there will be no increase in railway fares during the 24-months period from date of announcement of the package proposal (11 April 2006) until 10 April 2008 so long as the merger exercise is on-going. If the rail merger is implemented before 10 April 2008, MTRCL's commitment is that the post-merger corporation (MergeCo) will not increase its fares before that date.

Fares will be reduced from the first day of the merger. If:

(a) the legislative process for implementing the rail merger;

(b) the obtaining of the necessary approval from MTRCL's minority shareholders at an Extraordinary General Meeting (which would follow the legislative process if the Rail Merger Bill is passed; and

(c) the integration tasks that would commence after formal approval of the merger transaction

all can be completed in time for effecting the rail merger in mid 2007, the earliest date that MergeCo fares may be adjusted according to the proposed FAM will not be earlier than mid 2008. The reduced fares effective from the first day of the merger will be the base fares for the first fare adjustment after the merger.

It should be noted that if the merger can be implemented earlier, the travelling public will benefit from fare reduction sooner as a result of the merger.

(h) Illustration of the changes of railway fares over the past 20 years by applying the FAM formula.

The proposed FAM will regulate railway fares in the future after the rail merger and hence is forward-looking. It is not appropriate to artificially apply the fare adjustment formula retrospectively as if it had been agreed for application at that time, which it was not, and compare the hypothetical result with the actual fare increases in those past 20 years.

(i) **As the adoption of a FAM for adjusting public transport fares was already an established Government transport policy, the FAM for adjusting railway fares should be implemented without further delay to enable the general public to enjoy fare reduction at the earliest opportunity, and the FAM should also be delinked from the present rail merger exercise.**

Under the existing legislation and operating agreements, the railway corporations have autonomy to determine their fares. It is therefore most effective to pursue the FAM proposal through obtaining the agreement of the railway corporations to replace their existing fare autonomy with the FAM as part of the deal to implement the rail merger. The Government has set the introduction of a FAM as one of the parameters for the merger. Our merger discussions with the railway corporations have, among other things, resulted in their agreement to adopt the proposed FAM as part of the overall merger deal.

Any attempt to de-link the FAM, which is part and parcel of the overall merger deal, from the rail merger exercise will undermine the understanding we have reached with MTRCL as set out in the memorandum of understanding between Government and MTRCL on the terms of the merger and the railway corporation may seek to re-open discussions on FAM with us.

(j) **Measures to ensure objectivity and transparency of the productivity factor in the FAM formula.**

We have considered adopting the same approach used for calculating the productivity gain of the franchised bus industry for the purpose of fare regulation. Under this approach, the productivity of the industry concerned is assessed by using the ratio of total fare and non-fare revenue to total operating costs. However, this approach would produce a negative value for the productivity factor for the railway industry. This is because the scope for productivity gain for railways is limited when compared to buses due to heavy investment in the case in Hong Kong, especially where the railway network is still expanding. It would take the new railways some time before they can get sufficient patronage to make more efficient and more economic use of the additional capacity they provide. If we adopt this approach for the FAM, it would lead to higher railway fare increases or lower fare reduction (as the case may be) than otherwise would be the case, which would not be of benefit to the travelling public.

It should be noted that despite these constraints, we have achieved an understanding with MTRCL, as part of the overall merger deal, to set the productivity factor at a positive value of 0.1% in the FAM. This would have the effect of moderating future fare increases or increasing the level of fare reduction, as the case may be, which would benefit railway users, whilst at the same time incentivise MergeCo to achieve productivity gains.

Calculation of the productivity factor will be subject to review in the context of future reviews of the FAM.

(k) Details and basis of the calculation of the different levels of fare reduction, and their relationship with the synergies arising from the rail merger.

Under the merger package, the railway fare reduction includes the following elements:

(a) abolition of second boarding charge ranging from $1 to $7;

(b) global fare reduction of $0.20 for all Octopus card users paying full fares;

(c) an extra $1 reduction for journeys charging $12 or above;

(d) for all journeys charging $12 or above, if (a), (b) and (c) above when combined result in less than a 10% reduction, there would be a further reduction to achieve a minimum of a 10% reduction for all those journeys; and

(e) for all journeys charging between $8.50 and $11.90, if (a) and (b) above when combined result in less than a 5% reduction, there would be a further reduction to achieve a minimum of a 5% reduction for all those journeys.

Upon implementation of this fare reduction package, there would be a minimum of a 10% fare reduction for all passengers travelling on journeys with fares at $12 or above and a minimum of 5% fare reduction for all passengers travelling on journeys with fares between $8.50 and $11.90. The proposed fare reduction would apply to all domestic MTR and KCR railway lines. There would be no change to the fares of the AEL, Lo Wu and Light Rail services because of the rail merger.

Taking into account the benefits from the abolition of second boarding charge and the global fare reduction, 2.8 million daily rail trips will benefit from fare reduction from Day One of the rail merger. About 340,000 of them would benefit from a minimum of a 10% fare reduction and another 1.16 million would benefit from a minimum of 5% up to 10% fare reduction.

The proposed fare reduction is made possible by synergies to be achieved as a result of the merger. The two corporations have estimated that the synergies arising from the merger could reach about $450 million per annum after a few years of merger implementation. As a result of further detailed discussions, MTRCL has agreed to the above-mentioned fare reduction package which MTRCL estimated would cost about $600 million per annum, exceeding the estimated amount of potential synergies. This cost estimate is derived from an assessment of likely revenue foregone due to fare reduction from the first day of the merger.

Staff-related issues

(l) Kowloon-Canton Railway Corporation (KCRC) was requested to render assistance to its staff to facilitate their registration as registered skilled workers with the Construction Workers Registration Authority.

We have conveyed Members' request to KCRC. KCRC responded that it has planned to help all of those construction workers employed by KCRC to complete their application for registration by the end of 2006. As at the end of August 2006, more than 12% of these construction workers have completed their registration. The rest are expected to complete their registration by end 2006 as planned.

Environment, Transport and Works Bureau
Financial Services and the Treasury Bureau

15 September 2006

Annex I

Property Development sites

Basis of Valuations

MTRCL will pay $4.91 billion for the rights over the eight property development sites. The amount is for the rights over these sites, being the share of property development profits which the post-merger corporation may realise from co-development of these eight sites with property developer partners.

2. The rights over the foregoing property development sites are valued on the basis of the post-merger corporation's expected share of the assessed development profits for the sites. The development profit from each site is the independently and professionally assessed value of the market sales proceeds after deducting (1) land premium; (2) construction costs; (3) project enabling works costs; (4) tax; and (5) financing costs, professional fees, marketing costs, etc. As the sites are expected to be developed over a number of years, the assessed development profits are discounted to give a present value. Furthermore, the sites will be developed in conjunction with developer partners, hence the assessed development profits will also need to be shared with such partners.

3. The valuations of the rights were based on our professional property valuation consultant's opinion of the market values of the completed developments, which would be defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after the proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion", as well as our professional property valuation consultant's land premium assessment.

Valuation Methodology

4. In undertaking the valuation of the rights, our professional property valuation consultant has primarily adopted the Income Approach, which is the conversion of expected monetary benefits of projects (such as sales proceeds) into an indication of value. It is based on the principle that an informed buyer would pay no more for the right than an amount equal to the present worth of anticipated future benefits (profits) from the same or equivalent project with similar risk.

5. The discounted cashflow approach is commonly applied when adopting the Income Approach to value. This approach takes into account the time value of money and evaluates the value of any investment by arriving at a net present value (NPV).

6. The NPV of an investment is the current date value of all of its present and future cashflows (i.e. surplus proceeds), discounted at the opportunity cost of those cashflows. These opportunity costs reflect the returns available on investing in an alternative investment of equal timing and risk.

7. For the purpose of land premium estimation (where required), our professional property valuation consultant has applied the Residual Method, which is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. The development value of the property will firstly be established by the Comparison Method (see below). Thereafter, the total outstanding cost of development including construction costs, fees and other associated expenditure, shall be estimated (if not already provided) and deducted from the estimated completed development value to produce an arithmetical calculation of the expected land premium.

8. In evaluating the sales proceeds of the completed developments, our professional property valuation consultant has relied on the Comparison Method. The Comparison Method considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the condition and utility of the appraised properties relative to the market comparables. Properties for which there is an established secondary market may be appraised by this approach.

Valuation Assumptions

9. Our professional property valuation consultant has relied to a considerable extent on the information provided by Government (i.e. its client) and KCRC and has accepted advice given in such matters as planning approvals or statutory notices, easements, tenure, site areas, gross floor areas, development parameters, development schedule, land premium payment schedule, construction costs information as well as all other relevant matters.

10. Our professional property valuation consultant has assumed that all statutory or non-statutory development restrictions have been or shall be complied

with. The consultant has further assumed that the utilisations and improvements of land are or shall be within the boundaries of the properties held or to be held by KCRC or permitted to be occupied by KCRC.

11. In cases where the Government Land Grant conditions are available, our professional property valuation consultant has relied on the development parameters as stated therein in the course of the valuation. Otherwise, the development parameters as contained in the draft Government Land Grant conditions (if any), the Master Layout Plans approved by Town Planning Board (if any) and the information provided by Government and KCRC have been adopted for the purpose of the valuation.

12. Our professional property valuation consultant has assumed that all relevant required approvals from Government in relation to the planning application, land grant application and construction of the development properties are secured from Government in accordance with the development programme as provided by Government and KCRC.

Investment Property

Basis of Valuations

13. MTRCL will pay $2.84 billion for the eight investment properties.

14. The valuations were our professional property valuation consultant's opinion of the market values of the properties concerned, which would be defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after the proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Methodology

15. In valuing the properties, our professional property valuation consultant has adopted the Investment Approach, which is valued by capitalisation of the net income derived from the existing tenancies with due allowance for any reversionary potential, where appropriate. For those portions in the properties which are currently vacant, our professional property valuation consultant has adopted the Comparison Approach assuming sale of these portions in their existing state on

strata-titled basis with the benefit of vacant possession, making reference to the comparable sales evidence as available in the relevant market.

Valuation Assumptions

16. Our professional property valuation consultant has relied to a considerable extent on the information provided by Government and KCRC and has accepted advice given in such matters as planning approvals, statutory notices, easements, tenure, occupancy status, gross floor areas as well as all other relevant matters.

17. Our professional property valuation consultant has based on the tenancy information as of September 2005 and assumed that the vacant units and lease-expired units would be leased out at market rates as at the date of valuation.

18. Our professional property valuation consultant has assumed that all statutory or non-statutory development restrictions have been complied with. They have further assumed that the utilisations and improvements of land are within the boundaries of the properties held by KCRC or permitted to be occupied by KCRC.

19. Our professional property valuation consultant has conducted sample internal inspections of the properties. However, no structural survey has been made nor were any tests carried out on any of the services provided in the properties.

20. The valuations were made on the assumption that KCRC sells the properties in the open market without deferred term contract, joint venture, leaseback, management agreement or any similar arrangement which could serve to affect the values of the properties.

21. In respect of those properties for which the Government Lease(s) had expired before 31 July 1997, our professional property valuation consultant has taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988, which stipulate that such Government Lease has been extended without paying additional land premium until 30 June 2047 and that a rent of three percent of the prevailing rateable value is charged per annum from the date of extension.

22. No allowance has been made in the valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation which may be incurred in effecting a sale.

23. In the cases of the properties held under the Kowloon-Canton Railway Ordinance, our professional property valuation consultant has assumed that relevant land grants for these properties have been obtained from Government and all necessary premiums (if any) for the land grants have been settled in full by KCRC.

24. KCRC has the right to dispose, mortgage and lease these properties to third parties.

- END -

LegCo Panel on Transport and Panel on Financial Affairs

Follow-up to joint meeting on 23 May 2006

We have discussed with MTRCL Members' request for more information about the property package and emphasised to MTRCL that we should give LegCo as much information as possible. All the information contained in this reply is given with consent from MTRCL.[1]

(a)	**Detailed breakdown of individual property development including valuation details, site area, plot ratio, gross floor area for the residential and commercial development, number of flats that could be built, expected completion date, etc.**
	MTRCL will pay $4.91 billion for the rights over the eight property development sites. The amount is for the rights over these sites, being the share of property development profits which the post-merger corporation may realise from co-development of these eight sites with property developer partners. The rights over the foregoing property development sites are valued based on the post-merger corporation's expected share of the assessed development profits for the sites. The development profit from each site is the independently and professionally assessed value of the market sales proceeds after deducting (1) land premium; (2) construction costs; (3) project enabling works costs; (4) tax; and (5) financing costs, professional fees, marketing costs, etc. As the sites are expected to be developed over a number of years, the assessed development profits are discounted to give a present value. Furthermore, the sites will be developed in conjunction with developer partners, hence the assessed development profits will also need to be shared with such partners. The risks of these property developments, including market risk, land premium/construction cost increase risks, etc., will rest with

[1] According to MTRCL, the disclosure of information to its minority shareholders will be discussed with the Hong Kong Stock Exchange nearer the time of the Rail Merger. This discussion will be on the basis of the whole package of information that is to be provided on the Rail Merger transaction.

	MTRCL. Furthermore, the risks will also be affected by the fact that it will take a number of years to fully develop these eight sites and realise any profit. The key information relevant to Government's valuation of these eight sites is set out at **Annex A**.
(b)	**Detailed breakdown of individual investment properties including valuation details, current rents received, gross floor area for the commercial and residential properties, etc.**
	The rental income from the eight investment properties in the investment properties portfolio of the Property Package amounted to $142.6 million for the year ended 31 December 2005 (it should be noted that the Pierhead Plaza was under renovation for 9 months in 2005.) The other details of the eight investment properties are set out at **Annex B**.
(c)	**Detailed breakdown of management businesses and rights relating to properties at the 33 sites including valuation details, gross floor area for the property sites, revenue derived from such businesses, etc**
	In addition to the right to manage the eight investment properties noted in (b) above, MTRCL will acquire KCRC's property management business for five existing properties owned by third parties, namely, Pierhead Garden, Sun Tuen Mun Centre, Hanford Garden, Royal Ascot and the Metropolis. The net income earned in 2005 relating to management for these five properties owned by third parties was $4.5 million. MTRCL will also acquire the initial rights to manage properties to be built along West Rail. Such properties have yet to be constructed and would take a number of years to complete. MTRCL takes on substantial contract renewal risk in assuming KCRC's property management business in respect of the residential properties. The duration of such contracts usually ranges from one to three years, after which the owners of the properties have absolute discretion to appoint another party to manage the property.

	Given that property management operations can be easily assumed by a third party upon contract expiry, there is no assurance that future property management profits will continue to accrue to MTRCL.
(d)	**Justifications for including the purchase of KCRC's property management business by MTR Corporation Limited as an integral part of the deal.**
	The inclusion of KCRC's property management business as an integral part of the merger transaction is essential in order to ensure the long term sustainability of the connection and integration benefits between railway and property. If rail and property were managed separately, there would be less incentive for the respective parties to align their interests and ensure the optimal integration of the two, thus leading to the loss of connection and integration benefits. For example, essential links between station and properties (such as pedestrian footbridges and subways) may not be constructed or could be poorly managed even if built. Another critical reason for properties above or adjacent to stations to be managed by the rail operator is to secure a safe and efficient environment for rail operation. If the properties above or adjacent to stations are not properly managed, there could be adverse effects on the station such as water ingress or blockage of evacuation routes. In addition, some stations and adjacent property developments share services or access through each other's areas. Such situations require an integrated management approach to ensure smooth operation. In summary, MTRCL, in taking on the property management business, will be best placed to ensure optimal management of both railway and property to the benefit of both sets of users.
(e)	**Whether the disposal of KCRC's properties without going through a public tender would be in the best interest of the general public, and whether and how the general public could benefit from the proposed property package, bearing in mind KCRC's assets were owned by Hong Kong people.**

	The rail-property model has been creating tremendous value for the people of Hong Kong. An indication of this is at **Annex C** based on information provided by MTRCL. Government believes that the current proposal regarding the property package is in the best interest of the general public, in that the technical-engineering interface issues could be properly addressed by integrating the construction and operation of railways with the construction and management of the relevant properties, as set out in our answer to (d) above. Our intention is to sell the property package to MTRCL on market terms, and Government's professional property valuation consultant has confirmed that the pricing of the property package is fair and reasonable.
(f)	**Whether Government would consider putting out for tender KCRC's properties and using the proceeds for the purpose of subsidizing railway operations and fare reductions, and hence avoiding the disposal of KCRC's assets at a severely diminished value.**
	As the property package forms an integral part of the proposed merger, we would not consider putting KCRC's properties up for auction or tender. The proceeds from the property package are intended for servicing KCRC's existing financial obligations and the day-to-day administrative functions after the merger. In any event, it is not Government's policy to subsidise railway operations and fare reductions. We would also reiterate that there is no question of disposal of KCRC's assets at a severely diminished value, as our professional property valuation consultant has adopted a methodology for property valuation which is commonly accepted in the market, and confirmed that the pricing of the property package is fair and reasonable.
(g)	**Whether and how the rail merger and the proposed property package could achieve synergy.**
	According to MTRCL, synergies of the rail merger will amount to $450 million per annum, which will take the post-merger corporation a few years to realise. The majority of such synergies will come from the following three areas –

	• Transfer of best practice; • Procurement; and • Support functions. As for KCRC's properties, there is synergy in the current model where KCRC is involved in the construction and operation of the railways and also the construction and management of properties. The post-merger corporation could continue to enjoy such synergy through the property package proposal.
(i)	**Basis of calculation of the amount of payments for the service concession.**
	Under the service concession arrangement, MTRCL has agreed to pay the Government an upfront payment of $4.25 billion plus fixed annual payments of $750 million up to 2056. In considering the overall terms and structure of the transaction, the principal consideration was on the evaluation of the future cash flow of the KCR system taking into account the operating costs and commitments on maintenance and renewal of the KCR system during the 50-year concession period. Other factors that have been considered include the risks associated with fluctuations in patronage in respect of the KCR System, future debt obligations of KCRC and affordability of MTRCL while striking an appropriate balance between the interests of the parties involved. The Government would share in the potential out-performance of KCR system above a revenue threshold in form of an "earn-out" structure with variable annual payments being made by the post-merger corporation based on revenues attained by KCRC. This would ensure a fair valuation for Government, if the performance of the KCR system improves.
(j)	**Rationale for setting the duration of the concession agreement to 50 years and whether consideration would be given to shortening the concession period to 20 or 30 years, with an option to extend for a further period subject to an interim review.**
	Under the service concession arrangement, the post-merger corporation is responsible for carrying out and paying for all maintenance, improvement and replacement of assets. These

	would be long-term capital investments, which warrant sufficient time for the corporation to earn a return. During the 50-year concession period, the corporation would need to meet established service standards, and Government would continue to monitor its operation. The 50-year term, which ties in with the franchise period of the post-merger corporation, is therefore appropriate. If there is an additional requirement of periodic reviews whereby Government or KCRC can unilaterally change the concession conditions or period, the uncertainties to the post-merger corporation would increase, and the deal terms for KCRC and Government would naturally be detrimentally affected. This will not be in the interest of Government or KCRC.

Annex A

Property Development*

(1) Ho Tung Lau	
Location:	Sha Tin Town Lot No. 470 (Adjacent to East Rail Fo Tan Station)
Site Area:	2.67 hectares
Description:	• Residential GFA 1,301,368 square feet • Commercial GFA 21,528 square feet • Total GFA 1,322,896 square feet • 1,351 flats • 246 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered and construction by a developer is underway.
Additional Information:	• Land premium $1,393.37 million • Land grant document enclosed

(2) Wu Kai Sha Station	
Location:	Sha Tin Town Lot No. 530 (South of Ma On Shan Rail Wu Kai Sha Station)
Site Area:	3.41 hectares
Description:	• Residential GFA 1,815,349 square feet • Commercial GFA 32,292 square feet • Kindergarten GFA 10,764 square feet • Total GFA 1,858,405 square feet • 2,528 flats • 362 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered and construction by a developer is underway.
Additional Information:	• Land premium $5,391.19 million • Land grant document enclosed

(3) Che Kung Temple Station	
Location:	Lot no. not yet assigned

* Sites Plans of all eight sites enclosed.

	(North of Ma On Shan Rail Che Kung Temple Station)
Site Area:	1.81 hectares
Description:	• Residential GFA 966,521 square feet • Commercial GFA 2,077 square feet • Kindergarten GFA 7,212 square feet • Total GFA 975,810 square feet • 1,240 flats • 208 parking spaces
Market sale prices assumed in valuation:	• Residential About $6,040 per square foot • Commercial About $6,000 per square foot • Kindergarten About $1,750 per square foot • Parking spaces About $300,000 each

(4) Tai Wai Maintenance Centre	
Location:	To be known as Sha Tin Town Lot No. 529 (South-west of East Rail Tai Wai Station)
Site Area:	7.06 hectares
Description:	• Residential GFA 3,379,411 square feet • Total GFA 3,379,411 square feet • 4,304 flats • 718 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered.

(5) Tai Wai Station	
Location:	To be known as Sha Tin Town Lot No. 520 (Adjoining to East Rail Tai Wai Station)
Site Area:	4.85 hectares
Description:	• Residential GFA 2,050,327 square feet • Commercial GFA 667,368 square feet • Kindergarten GFA 11,948 square feet • Total GFA 2,729,643 square feet • 2,900 flats • 713 parking spaces
Market sale prices assumed in valuation:	• Residential About $6,330 per square foot • Commercial About $7,200 per square foot • Kindergarten About $1,750 per square foot

	• Parking spaces About $300,000 each

(6) & (7) West Kowloon Station (Site C and Site D), Kowloon Southern Link	
Location:	Lot no. not yet assigned (Bounded by (i) Jordan Road, Canton Road and Wui Cheung Road; and (ii) Wui Cheung Road, Canton Road and Austin Road)
Site Area:	2.09 hectares
Description:	• Residential GFA 1,128,013 square feet • Commercial GFA 225,603 square feet • Total GFA 1,353,616 square feet • 321 parking spaces
Market sale prices assumed in valuation:	• Residential About $9,780 per square foot • Commercial About $4,500 per square foot • Parking spaces About $450,000 each
Note:	Preliminary development plan only

(8) Tin Shui Wai Light Rail Transit Terminus	
Location:	To be known as Tin Shui Wai Town Lot No. 23 (Bounded by Tin Wing Road, Tin Shing Road and Tin Yan Road)
Site Area:	1.82 hectares
Description:	• Residential GFA 980,073 square feet • Commercial GFA 2,207 square feet • Total GFA 982,280 square feet • 1,600 flats • 267 parking spaces
Market sale prices assumed in valuation:	• Residential About $3,450 per square foot • Commercial About $6,000 per square foot • Parking spaces About $220,000 each

Annex B

Investment Property

(1) Royal Ascot	
Location:	No. 1, Tsun King Road, Shatin
Description:	• 20 residential units (GFA 29,964 square feet) • 20 parking spaces

(2) Royal Ascot	
Location:	No. 1, Tsun King Road, Shatin
Description:	• Commercial Accommodation + Kindergarten (GFA 107,606 square feet)

(3) Hanford Plaza	
Location:	No. 333, Castle Peak Road, Tuen Mun
Description:	• Reserved Commercial Accommodation (GFA 34,415 square feet) • 22 parking spaces

(4) Sun Tuen Mun Shopping Centre and Sun Tuen Mun Centre	
Location:	Nos. 55-65, Lung Mun Road, Tuen Mun
Description:	• Reserved Commercial Accommodation + Kindergarten (GFA 170,696 square feet) • 421 parking spaces

(5) Pierhead Garden	
Location:	Nos. 168-236, Wu Chui Road, Tuen Mun
Description:	• Commercial Accommodation (GFA 107,117 square feet) • 32 parking spaces

(6) Trackside Villas	
Location:	No. 4105, Tai Po Road, Tai Po Kau, Tai Po.
Description:	• 252 residential units (GFA 120,600 square feet) • 60 parking spaces

(7) KCRC Hung Hom Building	
Location:	No. 8, Cheong Wan Road, Hung Hom
Description:	• 7 units (GFA 21,096 square feet)

(8) Citylink Plaza	
Location:	No. 1, Sha Tin Station Circuit, Shatin
Description:	• 7 storeys, including the Retail Floor and 1/F to 6/F (GFA 170,431 square feet)

Annex C

Rail and Property model

According to MTRCL, with the Rail and Property model, Hong Kong has been able to benefit from a world-class metro system. At the same time, the Government has benefited by $136.1 billion in value -

	($billion)
Value to Government / Hong Kong	
Land premium	75.8
Market capitalisation as at 29/5/2006	79.7
Cash dividends	2.3
IPO proceeds	10.5
Cost to Government	
Government equity injection	(32.2)
Value creation	**136.1**