INVESTMENT

A highrise gateway

Hongkong's Li Ka-shing gains another foothold in Canada

By Ashley Ford in Vancouver

SOUTH CHINA MORNING POST

PHIL HERSER

Li; Expo 86 site: opportunity for Vancouver to realise a dream.

In beating a field of top North American developers to win the right to purchase and develop the Expo 86 site in Vancouver, Hongkong tycoon Li Ka-shing is offering the Canadian city a chance to achieve its dream of becoming North America's gateway to Asia.

The C$2 billion (US$1.6 billion) Pacific Place "mini city" project represents Li's largest investment in Canada. It eclipses the C$484 million he paid last year for a 43% and effective controlling interest in Husky Oil.

Li's winning bid for the government-owned 82-ha site had long been rumoured and had provoked some stiff opposition. The bidding attracted a top field of property developers, seven of whom each anted up a C$260,000 non-refundable deposit to enter the final round. The sale process was embroiled in political controversy when British Columbia Premier William Vander Zalm admitted trying to short-cut the bidding by taking a rival developer's offer direct to cabinet. The issue of racism was also raised when it became known that Li was the leading bidder ahead of local company Vancouver Land Corp.

Sources told the REVIEW that Li contemplated walking away from the process at a very late stage because of the "unseemly" political controversy and interference. However, a succession of emissaries visited key government figures and impressed upon them the fact that Vancouver could find itself in the economic wilderness as far as Asian investment was concerned if it was perceived that Li was the victim of a blatant "hometown" decision.

In the final analysis, Li won because he made the highest bid and had the best project, a futuristic-looking combination of housing, commercial towers, hotel, a hi-tech international finance centre, an international village, parks and playing fields.

Development of the False Creek site, which is widely considered the best urban development property in North America, will be carried out by Concord Pacific Development. Concord is a private company headed by Li's elder son Victor, who is a Canadian citizen.

Li brought some powerful partners into Concord for the project: the Canadian Imperial Bank of Commerce (CIBC), with which Li has had a long and close relationship, Cheng Yu-tung, chairman of Hongkong-based New World Development Co., who recently opened his first hotel in Vancouver, and Lee Shau-kee, chairman of Henderson Land Co. of Hongkong. Concord has not revealed the actual holdings, but sources told the REVIEW that Li holds 51%, CIBC 9% and Cheng and Lee 20% each.

Concord will pay British Columbia C$320 million for the land. The deal was secured with a C$50 million down-payment, with the remaining C$270 million to be paid over 15 years.

Kevin Murphy, president of the British Columbia Enterprise Corp., which handled the sale, said there is also a bonus factor built into the deal which could bring the province another C$180 million over the life of the project. The agreement includes a "square foot bonus for increased development rights," which involves a complex formula of additional payments by Concord for increased development densities.

Even the harshest critics acknowledge that the development unveiled by Concord is "breathtaking" in both its scope and vision. Their main criticism is primarily aesthetic, relating to the height of some of the proposed office towers and the population densities they could produce.

The plan involves housing, both low-cost and luxury, for 20,000 residents. But the clinching element, apart from the purchase price which was rumoured to be at least C$50 million more than the runner-up, is Concord's plan to create a series of "Marinavista" residential islands surrounded by canals and connected to the "mainland" by bridges.

The site's southern flank is already bordered by False Creek and the scheme would double the existing waterfront space and marine pathways, a cherished desire of the city.

A further important element is the inclusion of an international "telemark" or communications financial centre which would provide a state-of-the-art link with the rest of the world and provide the means to fulfil Vancouver's desire to become an international banking centre. The Canadian Government last year pushed through legislation permitting the free flow of international investment through financial institutions in both Vancouver and Montreal.

Cheung Kong (Holdings) deputy chairman and Concord director George Magnus, a key figure in the final negotiation, said Vancouver has a vital role to play in international finance. "Because of its unique position in the world's time zones, Vancouver can deal with the money markets of the world around the clock . . . that is a tremendous advantage that no other city except Los Angeles and San Francisco have."

Magnus says Concord hopes to begin construction within a year. He says Concord will spend about C$40-50 million a year for the first five years of the project, then increase investment as it "gains momentum." The first work will involve digging the canals, he said. ∎

INVESTMENT

Showing the colours

Jardines pays heavily to keep its hold on Hongkong Land

By Christopher Marchand in Hongkong

The speculative bubble surrounding Hongkong Land Co., the territory's bluest blue-chip property company, has been pricked. In a hastily negotiated deal on 5 May, Jardine Strategic Holdings (JSH), the Jardine Matheson group's investment holding arm, bought 8% of Land from a consortium of Hongkong tycoons — Li Ka-shing, Cheng Yu-tung and Lee Shau-kee — and China International Trust and Investment Corp., the mainland China-owned investment company.

The deal was made at HK$1.8 billion (US$235 million) or HK$8.95 a share, and raises JSH's stake in Land from 25% to 33%. The sale marked the end of any attempt by the consortium to wrest control of Land from Jardines, as the would-be bidders promised not to acquire more than 1% of the shares in any Jardine-controlled listed company for seven years.

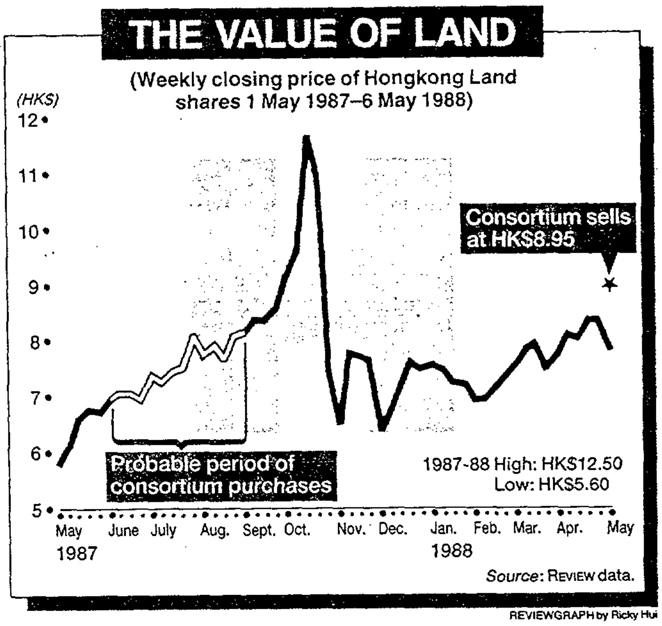
In Hongkong, where tycoons enjoy the status of cult heroes, the consortium's tame submission astonished observers. The initial response was that Jardines had won a major victory, but a closer appraisal would suggest this is not entirely correct. Stock punters betting on a Land deal had their fingers burned for the second time in just six months. From a pre-suspension HK$8.90, Land's share price dropped swiftly to HK$7.55, to put the stock on an historic p/e of only 8.12.

Clearly, the consortium members suffered a major loss of face, if only because they allowed expectations to flourish that they were prepared to fight for control of Land. In fact, their aim was probably more modest. They planned simply to buy JSH's 25% controlling stake in Land in the belief that JSH would be a willing seller.

Some market watchers believe the consortium may have taken a financial loss on its Land investment. However, sources with links to the consortium claimed that the bulk of share buying took place in mid to late summer last year. That was before Land's share price shot above HK$8 in September. Post-crash buying was largely a market chimera, they argue, and the consortium may even have netted a modest profit on the foray.

The consortium's exit from the takeover-that-never-was points to a series of miscalculations. The consortium appeared to think that Jardines was a willing seller, which probably was the case prior to October's stockmarket crash. The reduction of the Jardines stake in Land from 35% to 25% during the 1986-87 group restructuring seemed to be an invitation to an aspirant buyer. Hints from Jardines chairman Simon Keswick that "everything has its price" proved to be a tantalising invitation to the consortium. The consortium saw the issue as merely one of settling a price for Land.

Talks were moving to a climax in October when the market crash intervened. Ironically, anticipation of the deal had caused a huge speculative build-up of long positions in Hongkong's futures market. Instead, the crash was the proverbial act of god.



The crash also induced Jardines to reappraise its corporate strategy. The narrow escape from having to go through with the purchase of a 20% stake in Wall Street securities firm Bear Sterns at pre-crash prices, and a poor earnings record from the group's financial assets in the US, impressed on Jardines that Hongkong is still the easiest place for it to make money. As new Jardines taipan Brian Powers says: "Our long-term aim was to have 50% of our assets and income outside Hongkong. Now it is 75% in Hongkong, and 25% in the rest of the world. There's no harm in a change of mind."

So when Li apparently brought the issue to a head at the start of May, the consortium's offer of about HK$12 a share for the JSH stake in Land was firmly rejected. Apart from no longer being a willing seller, Jardines could hardly turn down a HK$16 a share approach from the group last October and accept HK$12 six months later. The consortium then asked Jardines for a counter offer to take out its shareholding.

Keswick was visibly agitated when the consortium handed him a letter, signed by Hongkong and Shanghai Bank chairman William Purves, to the effect that the bank would provide the consortium with bridging finance for a general offer to Land shareholders. The letter was reportedly crucial in inducing Jardines to settle with the consortium. In return, Jardines exacted the seven-year ban on buying into its companies. Powers denies that the consortium has the right of first refusal on any future sale of JSH's Land shareholding.

Li, market sources say, was very disturbed by the 29 April share placement by the Jardines group's de luxe hotel chain, Mandarin Oriental, of 10% of new shares to JSH at a nearly 10% discount to then market prices (SHROFF, 12 May). Li reportedly feared that a similar exercise was in store for Land, which would dilute the consortium's stake.

The 19 April expiry of the deadline for making a general offer to Land shareholders at the highest pre-crash purchase price paid by the consortium gave it considerable flexibility. If Jardines was not a willing seller, the next best option, according to the consortium's scenario, was to persuade Jardines to buy its Land shares. Hence the value of Purves' letter as a means of exerting pressure.

However, the crucial question was why the consortium did not push ahead with its own general offer to Land shareholders. One problem was that Jardines could mount an aggressive defence, which made the success of a hostile takeover (pitched at HK$12 a share) far from certain. For one thing, Jardines retained the option of a poison pill in the form of immediately placing 10% of new Land shares to JSH. By not buying Land shares cheaply on the open-market after the crash, JSH had retained the ability to take up a Land share placement without going over the 35%-stake threshold that would force it to make its own general offer. Meanwhile, London merchant bank Robert Fleming, with which Jardines is closely associated, could probably have dredged up 15% support from London institutions —