Culture and Commerce in China's Special Economic Zone:
An Experiment in Design and Development

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Submitted to the Department of Architecture and the Center for Real Estate Development in Partial Fulfillment of the Requirements of the Degrees of Master of Architecture and Master of Science in Real Estate Development at the Massachusetts Institute of Technology
June 1989
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ABSTRACT

Improvements in the real estate environment in the Shenzhen Special Economic Zone have been conducive to development and foreign investment. Based on a projected market demand, a mixed-use development in the theme of a Cultural Village is proposed. The development takes the form of a public-private partnership that provides expatriates' housing, art-oriented retail and a public art gallery. Revenue from the private development, together with donation from a philanthropic foundation, funds the construction and operation of the public art gallery for the local residents as well as tourists.

The design exploration focuses on Chinese garden design as a precedent and form generator for modern art exhibition spaces. Since art collections have traditionally been displayed in private residences, art gallery as a public building is an emerging concept in China. The goal of the project is to provide a cultural awareness and a unique shopping experience in a quality environment for the creation of residential land value.

Thesis Advisor: Tunney Lee
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# Acknowledgements

# Preface

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To Mom and Dad

with deepest appreciation
Many thanks to my advisor, 
Professor Tunney Lee 
whose interests and enthusiasm have given sparkles to this project.

Much appreciation to my readers, whose insightful 
critique has given my ideas a firm foundation: 
Professor Gary Hack 
Professor Marc Louargand 
Professor Bruno Pfister 
Professor Bill Porter

My gratitude to those who has given me thoughtful advice and generous 
assistance during the project: 
Don Baker 
Miguel Baltierra 
Water Bor 
Jose Manuel Darro 
Norry Dogan 
Dong Du 
Dennis Frenchman 
Han Jun 
Anthony Ip 
Marsha Jeung 
Jim Kinoshita 
William Lam
Peter Lee
Liu Er-ming
Liu Zhong-zhang
David Nieh
Wim Overmeer
Guy Perry
Daniel Soltero
Marshall Strabala
Carol Yao

Bank of New England
First National Bank of Chicago
Harvard Negotiation Program
I. M. Pei and Partners
P & T Architects
Portman Overseas
Tin On Development Company

And last but not least,
Bill Hubbard and the Thesis Studio
China has been a sleeping giant. In his sleep, the blood cells that circulate quietly through the giant’s blood stream are similar to the millions of Chinese who moved through the motions of life behind the bamboo curtain. Now the giant begins to stir in his sleep, he realizes that the world has gone around many times. He tries to raise his arm and yet the limps are numb. Despite the lack of agility, his mind is still sharp. His eye balls begin to roll: intelligence glows. With will-power as strong as iron, he tries to move again. He feels his heart throbbing and blood flowing. This time his finger tickles. He knows that regaining the former strength is only a matter of time.

The trips I made in 1987 and 1988 to China made me realize that the iron will of the giant is there. Catching up with those at the frontier will take some sincere effort, but will certainly be achievable. Economic development will ensure a speedy recovery, in which real estate development will be an important asset.

Buildings being erected everywhere, the country is building for lost time and rebuilding for lost treasures. Chinese designers today are in search of modern cultural expression in art and architecture. Yet the transformation has to come from within, like every single heartbeat of the giant. With extra nourishment, the pulse rate can only become stronger, louder and clearer.

I believe in the country. I believe in his talent.
Part I

Design of

The Development
CHAPTER ONE
BACKGROUND
1.1 Introduction

Following the end of the Cultural Revolution in the late seventies, social reforms started to take their shape in the Chinese horizon. Among them, "Regulations on the Special Economic Zones in Guangdong Province" was passed in August, 1980 by the Fifth National People's Congress of China to promote trade and commerce. The Shenzhen Special Economic Zone was then established in 1982 as an experiment to test the principles and polices set forth by the Regulations.\(^1\)

The intent of the thesis is: a) as a developer, to explore strategies in public-private development partnerships in the Special Economic Zones and b) as an architect, to investigate design typologies in the context of a Chinese town undergoing rapid evolutions.

The discussions evolving a) and b) will be exemplified through a proposal for a specific project in Shenzhen. This shall be a mixed-use development project that combines retail, housing, and a public art gallery.

\(^1\) Luo, *Shenzhen Experiment*, 1984, p.12
This is the most complete text of the thesis available. The following page(s) were not included in the copy of the thesis deposited in the Institute Archives by the author:

PP 10, 11
1.3 History of Shenzhen

Shenzhen is situated at the southern tip of Guangdong Province (known as the Pearl River Delta). Covering an area of 2,020 square kilometers, Shenzhen is a long strip of land stretching 49 kilometers and overlooking the Shenzhen Bay adjacent to Hong Kong. The predecessor of Shenzhen is Baoan County, which existed as early as the Qin Dynasty (214 B.C.) The first contact with the West was in 1521. The war against the European colonists was fought at this "Frontier of Guangdong Province". Shenzhen and Hong Kong were then set up as a coastal defence outposts. Throughout the succeeding centuries, the county survived many invasions from the western fleets as well as Japanese pirates.

By 1842, however, Hong Kong island was ceded to the British as a result of the Opium War. In 1860, the Kowloon Peninsula and the New Territories, also a part of Hong Kong, came under British rule through a 99-year lease. Due to the increase use of the railway between Hong Kong and Guangzhou, Shenzhen prospered and became the dominant city in south Guangdong in the 50's. Then in 1980, the Shenzhen Special Economic Zone and Baoan County were put under the jurisdiction of the Shenzhen city government.
1.4 Shenzhen Today

The Shenzhen Special Economic Zone has a population of 1,160,00. The moderate climate, convenient transportation links, proximity to Hong Kong and the deep-rooted connections with a great number of overseas Chinese have rendered the area uniquely equipped for foreign economic and technological development.

Geographically, Shenzhen has several districts, Luohu, Shangbu, Hantou, Shekou, Shahe, Shatoujiao and Baoan County. Together these districts snakes from east to west. Today the two most developed districts are Luohu and Shekou. Luohu, by which the railway runs, is the origin of development in Shenzhen. Its core is dominated by office buildings, tourist hotels, municipal and civic buildings intermingled with high-rise housing. Shekou has established itself as an industrial center of the Special Zone. Its natural bay provides container access. In the last few years this district has developed the most rapidly. Future development points towards the arterial road linking Luohu and Shekou. There are already successful resort hotel establishment off this spine.

Shenzhen has set a precedent for inland reform in finance, planning, construction. The Special Zone has thus become a radiating nodal point from which assimilation can be carried out with the mainland and contacts can set up with the outside world.
CHAPTER TWO
DEVELOPMENT PRECEDENTS
2.1 Land Planning

According to the Shenzhen Special Economic Zone's laws, decree and policies, foreign businesses can enjoy preferential terms in taxation, land use, currency transfer and contract negotiation. As a means towards economic development, the Special Economic Zone provides the foreign businesses a wide investment scope. Real estate is very advantageous in this scenario in that regardless of the investment type, it plays a major role in the setup of many large industrial and commercial operations.

Since 1982, joint venturing has been the most popular form of investment. Development funds for construction activities have emerged from two sources: a) domestic real estate development units and b) foreign investment primarily from western Europe, Japan and Hong Kong. At present, industrial development is the most welcomed form of investment because it possesses the element of technology and information transfer. Meanwhile, market housing, office buildings and retail remains a popular form of investment.

As an incentive to developers, policies have been adopted by the Shenzhen government to provide an environment more inviting for real estate development. For example, the original planned population of the Futian District, west of Luohu, was much smaller than the present projection of 300,000. During the interim planning period, an outside real estate company showed interest in developing the area and providing its own infrastructure. Such
intent was approved by the Central Government in Beijing. Futian has now become the largest planning project in Shenzhen.

Another example of the fluidity of the planning environment is the Superhighway linking Hong Kong and Guangzhou, passes through the Shenzhen Special Economic Zone near Futian. This highway was not contained in the original master plan because it was considered too expensive for the region. However, after a Hong Kong based real estate development company met with the Chinese government expressing the interest to develop transportation links, the route was added to the Shenzhen Masterplan. Land beside the Superhighway will soon increase its value. This selective capitalization of land would not have been possible without the intervention of private developers.

While the flexible planning process speeds up certain aspects of infrastructure provisions for Shenzhen, the government should take extra effort to maximize the general welfare of the city as first priority. The timing of development and environmental impact should be investigated thoroughly by both the public and private sectors before implementation.

2.2 Land Auction

The real estate system is a long term leasehold system that has become increasingly market oriented. The property market in Shen is rapidly
growing in scale and sophistication. Prices become reflective of the demand of land rather than cost of infrastructure development. Price represents the sum of present developable value and future capital gains. In quantifying demand, various avenues of rent escalation could be explored. It is the government's responsibility to regulate the land prices so that the market prices become a reactive rather than proactive market mechanism.

Another new phenomenon that attracted much attention recently was land auctioning. The competitive demand of land has proven its market place through an actioning of development rights in late 1987. For instance, the development rights of a 8,588 sq m (90,690 sq ft) residential site was transferred to a Shenzhen real estate company for 5.25 million yuan (US$ 1.38 million), nearly two and a half times its base price. In the audience were many outside observers. The importance of the event has been acknowledged as a benchmark towards a freer economy in the years to come.

After the reception of the first auction, the government had plans to put on more sites for auction and require that payments be made in foreign exchange. The subsequent auctions showed an imbalance of bids between local real estate companies and foreign corporations. It revealed a reluctance from outside companies to make hasty commitments.

The land market in Shenzhen is maturing quickly, following examples of its neighbor, Hong Kong. However, the introduction of auction before a price stabilization period remains to be seen as a healthy route towards a sophisti-
cated land system. The price may rise as a result of auctioning, but not necessarily the value. Moreover, the inflationary side effects brought about by the auctioning mechanism may destroy its internal market opportunities. For example, high land costs will raise the housing price for local homebuyers. If the housing stock is priced beyond the buyers' affordability, the economic benefit of the auctioning process would in turn vanish.

2.3 Real Estate Markets

In view of the current real estate market, a brief overview of four markets are highlighted in the following:

2.3.1 Office Market

The proximity to Hong Kong and South China has made Shenzhen a desirable location for an office base. Office categorization normally falls into three types (similar to class 'A', 'B' and 'C' in the United States): a) high quality, b) medium quality, and c) low quality. Due to the large number of out-of-town firms and overseas companies in Shenzhen, high quality space remains much in demand. For example, the Shenzhen International Trade Center is currently fully occupied by local and foreign firms that are traders and manufacturers with plants in the immediate area. The average current market rental for high class office space is US$ 16.40 per square foot.
2.3.2 Hotel Market

Because Shenzhen serves as the gateway to China for those crossing the border from Hong Kong, short term accommodations for travelers in transit are in demand. Since hotel operation is relative volatile, change in the global and regional economy, exchange rates and political climate are major factors influencing the health of the Shenzhen tourism industry. Hotels are again categorized in three types: a) high tariff, b) medium tariff, and c) guest houses. High tariff hotels in Shenzhen account for about 20% of total hotels and the trend for such quality hotel will continue for the short term. Occupancy level remains 85% since 1987 due to the increase of i) Taiwanese tourists meeting their relatives in Shenzhen, ii) Japanese and other tourists from Hong Kong, and iii) business people from overseas. The average room rate for high tariff hotel is US$ 55.00 per night.

2.3.3 Retail Market

The retailing market in Shenzhen largely depends on the total consumption power of the locals and the tourists, including visitors from Hong Kong. The shopping arcade is therefore a prevalent building type for retail in Shenzhen. Because of the higher wages in Shenzhen, locals have a higher purchasing power compared to those outside the Special Economic Zone. Perhaps due to Guangdong's reputation as a 'Heaven of all Foods"', the restaurant business has been particularly profitable in the retailing sector.
2.3.4 Housing Market

Opportunities available in the key development districts have drawn not only native workers, but also professionals and qualified laborers from other provinces of China. As a result, there is a strong need and demand for residential quarters in Shenzhen. With government support and higher wages, some professionals and managers are able to purchase market unit housing. This emergent trend has increased the potential for residential development. Square footage of units ranges from 44 sq m (464 sq ft) to 56 sq m (591 sq ft) and the prices average at US$ 20,600¹. These prices represent internal prices for local Chinese and foreigners could expect to pay a substantially higher price.

Another sector of the residential market is the development of higher quality housing for overseas Chinese and outside professionals and businessmen. Few are owner occupied. As an example, the overseas Chinese customers would buy the flats for their mainland Chinese relatives. Corporate buyers would purchase a block of these flats as short-term housing for their overseas employees. The units have amenities and facilities of western standard. Locations are accessible to both downtown Shenzhen by a short commute and to Hong Kong by hydrofoil. This type of housing includes high-rise units and villas. For example, the largest villa has an area of 2,400 square feet and the average price is US$ 170,000.

¹Wong, Shenzhen Special Economic Zone, p.56
2.4 Precedents

The following three examples of investment will offer a cross section of building types, their respective programming and development costs:

2.4.1 Overseas Chinese Village, Nantou

This resort development represents a segment of the housing market that caters towards buyers outside Shenzhen, namely overseas Chinese and expatriates. Using competitive pricing techniques, such properties are advertised in different countries and sold to a variety of clientele. Total investment is 34 million yuan or US$ 9,052,000.

The design effort started in 1988 by Shenzhen University Design Institute. Construction will be phased through 1991. The first phase of the development consists of 40 units of two to three story units on lots of 80 sq m. (845 sq ft) to 120 sq m (1,267 sq ft). Each unit has an average size of 240 sq m (2,534 sq ft), a front and back yard and an independent car port.

The project is designed to be self sufficient with amenities in the vicinity, such as recreation facilities, convenience stores, cafes and post office. Rest areas are incorporated into the landscape design, capturing the opportunity to enjoy the outdoors in a community sense.
2.4.2 The Shenzhen Museum, Shangbu

This museum is the first building of this type to be built in Shenzhen. It is designed to house historical relics and remnants of recent revolutions. The building will serve both exhibition and research purposes.

With a total area of 12,000 sq m (126,720 sq ft), the building is composed of four sections. The exhibition wing, the museum wing, the administrative wing and the auditorium wing are connected by two pedestrian corridors. The 3,500 sq m (36,960 sq ft) exhibition wing consists of an atrium. Conforming to modern museum standards, the building is centrally ventilated and is equipped with high-frequency alarm and electronic fire protection systems. Total investment in the building was 16 million yuan, or US$ 4.2 million. However, construction delays might have attributed to high costs.

The building construction was undertaken by Canton Construction Company. P & T Architects and Engineers from Hong Kong acted as interior architect with Vernon Johnson Associates of Boston, Massachusetts as museum consultants.
2.4.3 The World Trade Center, Luohu

The World Trade Center is considered the most technologically advanced structure built in recent years. The tower portion rises to fifty stories with three levels underground (60,855 sq m or 642,628 sq ft total). The lower commercial block has an area of 38,941 sq m (411,217 sq ft). There is parking on the premise.

The building was conceived by the Shenzhen Real Estate Company in 1981. Subsequently a design competition was held. The submission from Hubei was selected as the winning entry. Construction commenced in April of 1982. The building has been in operation since 1985. This building is the largest scale of mixed use development in Shenzhen, incorporating retail, restaurants and offices.
CHAPTER THREE
DEVELOPMENT ISSUES
3.1 Development Rights

3.1.1 Land Rights

Land is owned collectively by the State. Since the opening up of the economic zones, a series of property rights and property protection for the users have been outlined to facilitate the real estate development effort. Of foremost concern to prospective investors and developers is the codification of development rights. They look for legal guarantees that their properties will be under their control and operation once they have made the commitment to invest in Shenzhen.

3.1.2 Land Use Permit

Foreign investors have to obtain from the Shenzhen Municipal People's Government a permit which endorses the investor to develop the land within the requirements. The bundle of rights is described in a Land Use Permit.

First, the boundary of the property is recorded in the Permit after a site examination with representation from the Shenzhen Land Development Bureau as well as the development team. Also specified in the Permit are density (i.e. floor area ratio), total building height and area setbacks.
Architectural or landscape requirements have not been mandated as of this date.

Second, the Permit outlines certain public amenities to be put on site, as a form of linkage, required by the government.

Third, there is a time limit for development to take place to ensure the timely progress of projects. Within six months after the issuance of the Land Use Permit, building and construction plans must be submitted. Construction should commence nine months thereafter. Coordination time of large scale projects may be extended, subject to approval. Although construction delay will be fined, the length of construction can be negotiated. After the completion of the project, inspection will be scheduled within ten days. An occupancy permit is then issued.

Fourth, the developer is responsible for all maintenance expenses of the property as well as the curbing of environmental pollution, including treatment of solid waste, gas and waste water. In addition, the costs of linking any power supply, water supply, drainage, sewers, gas pipes and telecommunications equipment with the existing network will also be born by the developer.

Finally, after the completion of the project, the Shenzhen government reserves the right to have occasional inspections on site. Additions and renovations are prohibited without prior approval.
The purpose of the guidelines is to set up a framework for development. The investor should not only examine fine points under individual circumstances but also finalize details through the help of legal counsel before embarking on the project. In conclusion, the concept of development rights, though with more stringent guidelines, are similar to the U.S. Foreign investors create real estate value by utilizing the development rights to produce economically viable buildings.

3.1.3 Land Value

Because there is no individual land ownership in China, a long-term leasehold system is substituted to create a value for the land. The lease period, which can extend up to fifty years, depends on the amount of investment and practical needs, such as turnaround time for profits. Upon the expiration of the lease, it is renewable subject to the approval of the special zone authority. A Land Use Fee is levied according to use, location and lease period. Land Use Fees can be interpreted as a land rent under a long term lease. The basic rationale for the fee is that land has value as a productive factor. The guidelines are as follows:
### 1982 Yearly Rent

<table>
<thead>
<tr>
<th>Type</th>
<th>Range (Yuan/sq m)</th>
<th>US $/sf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>10-30</td>
<td>0.2-0.8</td>
</tr>
<tr>
<td>Residential</td>
<td>30-60</td>
<td>0.8-1.4</td>
</tr>
<tr>
<td>Hotels</td>
<td>60-100</td>
<td>1.4-2.4</td>
</tr>
<tr>
<td>Commercial</td>
<td>70-200</td>
<td>1.7-4.8</td>
</tr>
</tbody>
</table>

### 1984 Yearly Rent

(Revised)

<table>
<thead>
<tr>
<th>Type</th>
<th>Range (Yuan/sq m)</th>
<th>US $/sf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>6-30</td>
<td>0.2-1.4</td>
</tr>
<tr>
<td>Residential</td>
<td>18-60</td>
<td>0.4-0.7</td>
</tr>
<tr>
<td>Hotels</td>
<td>35-100</td>
<td>0.8-2.4</td>
</tr>
<tr>
<td>Commercial</td>
<td>40-200</td>
<td>1.0-4.8</td>
</tr>
</tbody>
</table>

Fig 1. Source: Kwan and Chu, *Modernization in China*, p. 119.

Since the inception of the system, land-use fees have been adjusted every three years with increases not exceeding 30%. As an untested measure of productivity through private venture, the rent has to be kept low. Furthermore, price adjustment has to be made to accommodate the different gradations of land. Fees for uncultivated land such as slopes, hillsides and swamps will be exempted for one to five years according to their use.
Concessions of up to 50% reduction for industrial use in certain districts have also been offered.

However, the 1984 revision in the lower spectrum of the range revealed the adjustment of rents to supply, which is largely dependent on the pace of infrastructure development, as well as the demand for land at the given price level. The large percentage increase in industrial rent is an indication of the enthusiastic response from investors and the priority that Shenzhen has in its development outlook.

There are generally two methods of payment: lump sum and yearly contribution. The lump sum method demands payment in full within two years. This method bears resemblance to purchasing a development right. The yearly contribution method incorporates an 8% interest rate as a finance charge. A combination of these two methods generate both upfront revenues and a cash flow stream that the government can rely on. However, from an investors' point on view, they will lean towards the yearly payment method if they can acquire higher than 8% yield elsewhere with a liquid investment so they will be able to enjoy the benefit of the spread.

Besides the leasehold system, land can also be acquired through a joint venture partnership where land is viewed as equity from the Chinese partner. Usually infrastructure is included as outlined in the Shenzhen Master Plan. Depending on the size of the development, the developer may have to absorb some utility upgrading costs as part of the total hard cost.
Similarly in U.S. practice, the upgrading is regularly carried out at the
developer's expense where the local infrastructure capacity is limited.

Methods of land acquisition in China have evolved rather quickly in the last
few years. In 1981, the Provisional Regulations on Land Control ruled
against land speculation. Article 4 prohibits private land transaction. Article
13 specifies that "Overseas investors must engage in construction on the
land for their use according to the purpose as stipulated in the contracts or
agreements, and are not allowed to convert the land for other purposes at
will." 1 However in 1988, there was an amendment to the Provisional
Regulation on Land Control. There was a major change towards transfer-
ability of development rights. As Article 10 stated, "The development right
of the land could be transferable within legal premises." The transferability
brings up possibilities of buying and selling, inheriting, serving as collateral
and even auctioning.

The recent incidences of land auction in Shenzhen indicates that there is a
general acceptance of concepts such as market demand and supply. When
the land market matures, the logic follows that the property market should
also be tradable. It bears significance because the developer in a joint
venture will be able to sell or trade his or her share of interests in the
property after a designated period of time. If it is proved that the property
enhances the value of the land, the resale price of the building will also
reflects the land appreciation.

1 Kwan and Chu, Modernization in China, p.119.
3.1.4 Land Tax

The Land Administration Law of 1986 raised the possibility of a structured land tax. The government rhetoric is to use this change to raise revenues to tax away location rents that may give one firm a competitive advantage over another. The tax base, however, remains an unreliable basis for the calculation of assessment. Unlike in most countries, property values in China cannot serve as the tax base because there is not yet a formal market where properties are bought and sold. The absence of demand and supply creates a vacuum for market forces to work. At present, the base of land use tax is the area of land assigned to each user, which is relatively low. As a result, firms with a higher efficiency of land use will find a larger after-tax profit margin.

Because the restructuring of real estate taxes is under way, the developer needs protection against unexpected future tax increases. One option is to lock the current low tax rate for the duration of the project. Another option is to introduce a tax agreement where in lieu of land tax, a minimum amount based on a percentage of gross profits is collected so that the developer is protected in an unproven market. At the mean time, the government is given the opportunity to share the upside of the project.

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2 Bahl & Junzhang, Taxing or Charging for Land Use in China, p.29.
3 An example is Informal Tax Agreement, Chapter 121A. The Prudential Center, Boston, Massachusetts was one of the first building funded through such an agreement.
3.2 Development Process

The Master Plan prepared by the local government acts as a zoning guideline to development but has no legal status. In order to provide an environment congenial to foreign investment, a more vigorous system of land administration is needed. It is for this reason that the Provisional Regulations on Land Control in the Shenzhen Special Economic Zones were prepared. They were passed by the Thirteenth Session of the Standing Committee of the Fifth Guangdong Provincial People's Congress in November, 1981.4

First, all proposals for the use of land must be submitted to the Shenzhen Municipal People's Government for approval. Depending on the complexity of the project and the pace of the negotiation, this phase normally ranges from two months to two years.

Second, a Land Use Permit, specifying explicit development rights, is issued. If a land use fee is required, payments are due at this time before further approvals will be granted. Although according to the guidelines approval processes are estimated to be around four months, time projection for such phases can at best be an approximation in reality. In large U.S. cities, delays usually occur during the permitting process, where a myriad of parties are involved. Similarly in China, the scheduling of the approval

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phases is cumbersome, although for slightly different reasons. The agencies explicitly involved in the approval process are the Planning Department, Architecture Department, and the Building Control Division of Planning Department respectively. Interest groups in China such as environmental agencies and neighborhood associations, though well represented in civic activities, are not yet represented in this negotiation process. However, it is known that during the Chinese approval process, the document may pass through many hands within the same department. Keeping track of the chain of personnel makes the approval process painstaking and cumbersome.

Although the permitting process is somewhat open-ended, the guideline, on the other hand, imposes a tight schedule on the developer in the design and construction process. The time allocated for the entire process for a typical building is twenty-one months. Time limits for sizable projects may be negotiated with the government. Because of the stringent time controls of the guidelines, the developer will be inclined to bring in foreign architects and contractors to better manage the building process.

Concurrent with the scheduling of events, the cost projection should be reviewed often to ensure the economic viability of the project. Of all the cost projections, those of the design and construction remain the most vulnerable to alterations.

The design fee for a large project can be retained at 4.5-6% of total construction cost. The design team, based on experience, could come from Hong Kong or the United States. The chosen firm should be willing to set
up a site office to oversee the construction effort. Drawing updates and changes of detail are best made on site and approved by a registered site architect. The turnaround time for a stamped drawing is essential in the execution of overseas projects.

Construction management is one of the most important aspects of a large-scale projects. Generous fees should be allocated to retain an experienced firm to ensure a successful project. In the Pacific rim, Japanese firms have the most experience in large scale projects. Their integrated facilities can provide expertise from site preparation to material fabrication. Another important aspect of management is quality control of domestically produced material and import of high technology material unavailable in China. At present, a large portion of imported materials can be obtained through Hong Kong.

It is the responsibility of the contractor to mobilize workers recruited by the Chinese partner. However, the lack of control on the contractor's part in the recruiting process tend to complicate labor management. It has been known that some managerial positions within the Chinese work force are acquired through personal connections. The play of politics during the beginning phase of the project is likely to cause confusion and delay. Therefore, an agreement with the Chinese partner should be made to extend the interviewing process so that the contractor could have more direct contact with the Chinese subcontractors before the project begins.
Furthermore, apart from the difficulties arising from cross cultural communications between overseas firms and their Chinese partners, there are major technical gaps between western and Chinese construction processes. The craft of the building trade still exists in some parts of China; however, it is not evident in everyday construction. The traditional Chinese method starts from the foundation and shell, after which each subcontractor would finish one trade at a time. This extended construction schedule accounts for some recently completed buildings looking weathered and used. Moreover, because of the lack of trade coordination and inexperience in quantity assessment, fast-track construction is not recommended in China. Reduction of construction costs, however, can be pursued through other avenues, such as value engineering and more effective construction management, specifically the coordination of subcontractors and sophisticated quantity surveying.

The introduction of differential wages in Shenzhen has also worked to the construction industry's advantage. There is incentive for skilled labor to stay on the job and therefore scheduling and quality control can be better monitored. Moreover, a more dynamic environment for technology transfer can be maintained by training the same pool of workers.

3.3 Joint Venture Operations

In the usual U.S. practice, a joint venture is an association of two or more individuals, corporations or partnerships for the purposes of putting
through a specific and limited business enterprise. There are several requirements to a joint venture: (a) an agreement (written or oral), (b) a joint interest in the form of a contribution from each of the parties, (c) a sharing of the profits or losses and (d) the mutual right to control. The parties to a joint venture are in a fiduciary relationship with one another and they have the right to require that the other parties furnish them with an accounting for the proceeds of the joint venture.

Joint ventures are generally created among different persons in an agreement which specifies: (a) the name and nature of the enterprise, (b) the identity and contributions of the members, (c) the assignment of management responsibilities, (d) the apportionment of profits and expenses during operations and (e) the division of the proceeds upon the dissolution. Provisions should also be made for record-keeping. 5

Joint venturing in Shenzhen is a business practice whereby there is a specific allocation of shares between China and the foreign developer. 6 China provides the land for development, and monetary investment if the potentials for growth and development are attractive. Developers are responsible for the equipment and materials. Profits obtained will be distributed according to the proportion of shares owned by each party. In the Management Committee, a representative from the Chinese government

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6 Sample Joint Venture Agreement in Appendix B.
serves as the Director while the investor holds the post of Deputy Director and Manager.

The joint-venture partner is typically a Chinese development company, which is a quasi-public government unit which retains independence in conducting its day-to-day activities outside municipal territory. An example of such companies would have its headquarters in Beijing with branch offices located in regions where development activities are concentrated. Because of their close ties to the government, these companies are critical in the land procurement and development process.

A cooperative venture is another form of joint venture, although the ownership of land and property resides in the Chinese partner. There is no formal distribution of shares between the two parties. Theoretically, China will provide the land, the labor and utilities (i.e. water and electricity) while the investor will be responsible for all the equipment, facilities, transportation and marketing. China will charge a modest processing cost. Debt financing from foreign countries will be approved on the basis of letters of credits from the Bank of China or other equivalent Chinese banks. Profits will be apportioned according to some ratio agreed by both parties, but usually with the investor receiving a large share. Contract periods for cooperative production last for a definite period of time, after which all equipment and facilities revert to the Chinese without any compensation to the investors.

The cooperative venture can be interpreted as the Chinese partner bearing some of the hard costs while the investor is responsible for the remaining
hard cost and all the soft costs. Extensive negotiations are usually factored into the process. The cooperative production concept will work for foreign investment which has a relatively fast rate of return. For instance, hotel development proved this concept successful even during the formative years of the special zone. However, the net transfer of information technology and personnel management into the special zone from the investor will be considered as a "soft profit" gained by the Chinese. As property value is created through real estate development, both parties should recognize the consequences of a mature property market. Therefore, instead of automatic reversion of properties, which was the practice in the early years of the special zones, there should be a recoup of future capital gains from the developer at the end of the joint venture agreement.

Up to date, the Chinese government has made the effort to give explicit guidelines for foreign investors to improve the business climate with the following guidelines:

First, prospective investors should apply to the Guangdong Provincial Administration of the Special Economic Zones and will be issued licenses of registry and use of land after examination and approval. This represents an acknowledgement of the company's operation and its intent to conduct business with the Chinese. The registry process is prior to the Land Use Permit.  

7 Wong, *Shenzhen Special Economic Zone*, p. 111.
Second, investors can open accounts and deal with matters related to foreign exchange in the Bank of China or other banks set up in the special zones with approval. Investors can also apply for insurance policies at the People's Insurance Company of China in the special zones and other approved insurance companies in the special zones. There are directories of such institutions and agencies available for investors.

Despite the fact that there was a strong invitation for foreign capital in the early 1980's, the lack of supporting foreign service institutions had prompted investors to pull resources from overseas. In the last few years, numerous banks and financial institutions set up branches in Shenzhen. In addition to the current financial services, there are preliminary plans for forming a foreign banking association as a decision-making body to better address issues such as foreign exchange, lending structure, and interest rates. The growing activities movement also initiated the practices of a number of local law firms, design consulting firms, and construction companies. As a result, a more fluid business environment is seen today at Shenzhen.

Third, investors can operate their enterprises independently in the special zones and employ foreign personnel for technical and administrative work. It is an important assurance to investors that once the approval has set in place, there would be no interference with their operation.

Fourth, the rate of income tax levied on the enterprises in the special zones is to be 15%. Special preferential treatment will be given to enterprises.
established within two years of the promulgation of these regulations, enterprises with an investment of US$ 5 million or more, and enterprises involving higher technologies or having a longer cycle of capital turnover. Moreover, investors who reinvest their profits for five years and longer may apply for exemption of income tax on profits from such reinvestment.

Fifth, legitimate after-tax profits of the investors, salaries and other proper earnings after paying personal income tax of the foreign, overseas Chinese and Hong Kong and Macau workers and staff members of the enterprises in the special zones can be remitted out of China through the Bank of China or other banks in the special zones. The ability to export funds has strong implications for real estate development because mortgage payments and dividend distributions rely heavily on the income generated from the development.

Finally, entry and exit procedures will be simplified and convenience offered to the foreigners, overseas Chinese and compatriots in Hong Kong and Macau going in and out of the special zones. Since 1980, there has been significant improvement in the efficiency of immigration officials at the Shenzhen railway station and at the Shekou port.
3.4 Financing

There are cases of both debt and equity financing in China depending on the size of the project. For large projects, the financial institutions, usually a pension fund or insurance group, are known to take a share of profits. Giving away equity in turn reduces the developer's risk exposure.

Debt financing is equally popular through the syndication of loans through a consortium of Hong Kong banks and Hong Kong branch offices of overseas banks. Though complex, time-consuming and often expensive, large loans can only be made through this channel. The largest project in Shenzhen up to date has involved sixty banks in the syndication effort. The leading bank may either be Bank of China or a major international bank. Through the guarantees of local banks and the Chinese government, certain types of projects also enjoy below market interest rates.

The Chinese banking system plays an important role in facilitating development because it produces loan guarantees and letters of credit as well as handles currency exchange. Although interest rate is generally lower than the U.S., there is a general shortage of funds and financial instruments. Therefore, Chinese loans are mostly reserved for domestic development companies and local work units.

When the project is of an international scope, there is always a concern for foreign exchange exposures. The traditional way to hedge against the US
dollar is to purchase currency futures, which state that a certain exchange rate will be in effect at a future point in time. However, for a long-term loan, future roll-overs are expensive and may still incur a certain degree of risk. Another way to reduce foreign exchange risk is to set up transactions in US currency. For example, credit card billing enables most transactions in hotels and large retail stores to be conducted without the intervention of local currencies, the Yuan. This method would not solve all the problem, however. If the Chinese joint venture partner demands payment in Chinese Yuan, part of the cashflow would still have to be subject to local currency fluctuations.

3.5 Negotiations

Negotiation is a series of links that shape the joint venture process. In China, where negotiations are more "process" oriented than "result" oriented, it is important to understand some of the origins of these negotiation concepts deep-rooted in the culture.

Confucian values emphasized not the rights of the individual but the functioning and maintenance of the group. Ideas of order, responsibility, hierarchy and harmony was pre-eminent among these ideas and once it had been disturbed, it could best be restored through compromise. Thus

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Confucianism highly praised the art of compromise and, with it, the role of persuasive intermediary.\(^9\)

Mediation is the process by which the Chinese approach negotiations. Each issue is weighed and discussed at length, in the hope of slowly gaining territory from the other partner. Mediation is also the means to resolve conflicts and disputes. According to Confucianists, the legal process was not one of the highest achievements of Chinese civilization but was, rather, a regrettable necessity. It was considered disreputable to become involved in the law courts, even as a party with a legitimate grievance. A lawsuit symbolized disruption of the natural harmony that was thought to exist in human affairs. Therefore, in joint venture negotiations, patience from the developer is essential to reach a mutually agreed upon solution. Arbitration is not kindly received in business and accounts for delays in the design and construction of many known projects.

Negotiations still raise a lot of anxiety among foreign investors because of their lack of control over the process. Starting from the launch of the negotiation on the Chinese turf, many parties are brought into a negotiation session and little time is allowed for breaks. Even though outnumbered and at times exhausted, the developer should look upon the situation as a multi-party negotiation. The Chinese have a need to bring all concerned parties to the bargaining table because under the current system, approval agencies are laterally, rather than vertically, organized. Moreover, negotiators like to

bring their supervisors along for the purpose of demonstrating their negotiation skills. In view of these circumstances, the developer should steer issues in a direction that is result-oriented and request that internal concensus among the Chinese parties would be made without delay.

Although improved in recent years, the concept of rules and agreements in negotiations are conceived quite differently form western standards. Since the rules have been known to change in China depending upon the person in office and current status of the firm, it is important that the investor makes explicit rules in the beginning by which both parties will follow. Of utmost importance are payment and delivery dates because the time value of money is still not a widely accepted concept in the Chinese system. The Chinese also have a long tradition of making verbal contracts, which may work to the investor's disadvantage. Therefore, agreed upon issues should be expressly spelled out before the next round of negotiations. Written contracts have already been encouraged by the government and they should be used to the fullest extent for clarification and protection. In conclusion, a firm negotiation stand in the first round will help the investor or developer gain bargaining power in future projects.
CHAPTER FOUR
MIXED-USE DEVELOPMENT PROPOSAL
4.1 Program

Based on China's open economic reform, Shenzhen has benefitted from the thriving business and tourists activities. To maintain the pace of development and to continue to attract newcomers, the urban environment needs to keep up with the rising standards that the special zone is experiencing. Despite rapid development, there is a lack of urban cohesion in Shenzhen. For instance, the natural landscape is being displaced by highrises. The little urban open spaces left are largely undermanaged and thus underutilized by local citizens.

Responding to the need for cultivating a sense of place and to a projected market demand for housing, retail and gallery space, a mixed-use development is proposed in the high growth Futian. This proposal incorporates 140 units of luxury housing, 12,000 sq meters (126,720 sq ft) retail space with 700 sq meters (7,392 sq ft) of a public art gallery.

<table>
<thead>
<tr>
<th>Use</th>
<th>Square Footage</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Housing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Villas</td>
<td>104,544</td>
<td>60</td>
</tr>
<tr>
<td>Midrise</td>
<td>104,544</td>
<td>80</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td>126,720</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Art Gallery</strong></td>
<td>7,392</td>
<td>N/A</td>
</tr>
</tbody>
</table>
4.2 Development Concept

The development concept is a Cultural Village. The site would be located at Futian City Center in Futian. Futian has been designated by the government as an area of growth. Guidelines are written such that they are conducive to land development. The planning of Futian City Center offers an opportunity to create a new city center where tourists, expatriates and the people of Shenzhen can identify with and regard it as a place for all of them - to take part in cultural events, enjoy entertainment facilities, celebrate festive occasions and meet relatives and friends.1

The project occupies an important corner site at the junction of two transportation arteries of the Shenzhen Special Economic Zone, Deep South Road and Futian Road. Deep South Road is the east-west spine between Luohu, the old downtown and Sekou, the booming industrial zone. Futian Road is an exit road running north-south from the new Superhighway connecting Hong Kong to another major southern city, Guangzhou. The prominently located project will not only be visible among Shenzhen's new development, the proximity and accessibility to Hong Kong will also draw tourists to visit and shop on the premise.

Art is not only a focal point but also a recurring theme in the proposed development. The project aims to strengthen Shenzhen's cultural heritage and art base, while letting the development achieve its own financial

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1Bor, "Futian Center Shenzhen Proposals", Shenzhen Urban Design Study, p.49.
stability and economic viability. The target market groups are tourists, local professionals and businessmen.

The Cultural Village is a transformation of the traditional Chinese gardens. These gardens of Southern China provide a unique environment for leisure activities such as strolling, browsing, eating, admiring nature and elegant natural settings. Such activities draw a parallel to the experience of visiting an art gallery and shopping. The project is designed with the sensitivity and elegance with which traditional Chinese gardens have been conceived. Overlooking this picturesque setting are residential buildings and detached villas accessed by a separate entry.

Located at the center of the shopping complex, the public art gallery houses a collection of contemporary Chinese art. As a cultural resource as well as a marketing tool, the art gallery draws a variety of local and overseas visitors. The exhibition changes periodically such that local and Hong Kong visitors will return for repeated visits. The foot traffic for retail is in turn leveraging off the prestige and clientele of the gallery. On a reciprocal basis, retail also drives gallery attendance. By creating a high profile yet controlled and secure cultural environment, residential value of the surrounding land is thus enhanced. Luxury housing clusters around the convenience of shopping and cultural activities. It is the spatial connection and the synergy of the use types that are key to the project's success.

Sketch, sculpture garden

2 Examples of work in Appendix A.
3 Precedents such as New York's Museum Mile and the Museum of Modern Art Tower.
4.3 Program Analysis

4.3.1 Art Gallery

There has been a wave of awakening interests in contemporary Chinese art in recent years after the Cultural Revolution, a period when artists and the art movement have been suppressed. The root of the interests stem from western curiosity as well as from serious scholars who track the progress of mainland artists. It is, therefore, appropriate to formally introduce and display the latest artwork of southern China in the modernized economic zone that represents the spirit of experiment and perpetual improvement.

Endowed by and named after a philanthropic foundation, the art gallery will house travelling collections of modern Chinese artwork on a temporary basis. The travelling exhibition concept induces clientele to return periodically for gallery visits and shopping expeditions. Furthermore, minimum ownership of artwork at the early stage lifts the burden of acquisition costs for the gallery.

First of its kind in China, the gallery will gain attention by virtue of its content and prior promotions. Every other month, a new collection will be unveiled to the public featuring the current thinking and thematic elements in the Chinese art world. The effort of the staff is central to the coordination of various exhibitions. The curator, hired outside China, will be a visionary who has extensive museum background and tremendous commitment to the project.

18. Salon de Beauté
Geng Jianyi
80 x 72 inches
Oil on canvas
1985
4.3.2 Retail

The Cultural Village aims to be a catalyst towards the creation and consolidation of art merchandise. While the specialty stores carry highly demanded traditional arts and crafts that are noticeably in short supply in Shenzhen, the private galleries bring in a line of work that reveals the current thinking among Chinese artists. The latter is considered a progressive component of retail emerging from the context and support of this particular project. Entrepreneurial art dealers from Hong Kong and overseas will be instrumental in the marketing and export of this new line of work. Moreover, the availability of this type of merchandise in a tax free zone will attract tourists from Hong Kong to cross the border and embark on a shopping excursion, with or without an extensive stay in China.

The retail component relies on a carefully conceived tenant mix: private galleries, arts and crafts, traditional furniture, calligraphy, studio artists, food and service oriented tenants. Stores are connected by a covered, one-level, single-loaded walkway that captures the atmosphere of a Chinese garden. Stores located on Deep South Road and Futian Road have entries from both the street and the interior garden. At these urban edges, there is a congregation of tenants who can support a high volume of foot traffic, such as service oriented and food tenants. They service tourists as well as residents living on the premise. Stores located farther into the garden are more art oriented such that a contemplative, meticulously crafted environment is created for the marketing of artwork. Because of the scenic setting and warm climate, events in conjunction with the art gallery could
be staged in the garden to promote the quality of place that is unparalleled elsewhere in Shenzhen.

4.3.3 Luxury Housing

The luxury housing component is made up of western standard living units that cater towards large corporations and the overseas Chinese markets. There are two major unit types available. The villas are detached units complete with a carport, front and back yard. They aim to create the level of privacy comparable to a single family house in the west. The midrise units are essentially condominium dwellings. Density is kept low so that private open spaces such as balconies and roof terraces can be amply provided. Surface parking is adjacent to the building. Common areas include lobbies, tennis courts and a swimming pool, the maintenance of which will be covered by a condominium fee.

Because the units are sold \(^4\) to a variety of international clienteles, an aggressive marketing program should be conceived and implemented well in advance. Marketing effort will be conducted in different directions. One will be focusing on selling blocks of unit to U.S. and Japanese corporations for executive and employee housing. Retail effort will be directed towards overseas in Hong Kong, Macau, Taiwan, Singapore and Thailand. The

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\(^4\) "Sale" refers to the transfer of rights to a long-term leasehold of 50 years.
buyers' early commitment will help defray interest costs in the initial stage of the project.

4.4 Market Demand

4.4.1 Retail Market

Shenzhen is not known as a national retail outlet for export goods and has no particularly strong retail base. Up until the present day, popular arts and crafts merchandise such as teak wood furniture and silk embroidery are not found in equivalent quantity and quality in Shenzhen as in Beijing or Shanghai. Bringing a wide selection of market proven products on line together with a team of attentive sales staff, this high-end retailing will carve out its own niche market. Moreover, not only will Shenzhen have a price advantage, due to the absence of import taxes, over the Chinese products stores in Hong Kong, the Shenzhen stores are also more capable of handling customers' orders within China.

An untapped market is the potential of attracting overseas tourists staying in Hong Kong to shop in the tax-free special economic zone. With the ease of entry and exit procedures, tourists who have no prior intention of visiting China will be lured by shopping excursions across the border. They come to Shenzhen either by car or through organized bus tours. The close proximity to Hong Kong enables these customers to order and purchase art merchandises on separate trips.
Although in the past, the primary development in Shenzhen has been industrial, the future retail needs will increase partly due to the rising living standards of local residents. Local demand for retail increases as the population grows. The demographics of Shenzhen differ slightly from that of other parts of South China. Since there is an entry restriction in Shenzhen, it acts as a filter for professionals and high income individuals. The change in family life, such as late marriages and shared income households, also attribute to the increase of disposable income and higher purchasing power of Shenzhen residents.

Future retailing activities should aim to upgrade the existing facilities in Shenzhen. Current stores carry an assortment of mediocre quality merchandise, although foreign electrical appliances, such as televisions and refrigerators, are readily available. Stores are usually located at the base of office towers and residential buildings, without a specific orientation towards creating a critical mass. The visual contact between the storefront display and the pedestrians has not been designed to maximize merchandise exposure. The immediacy of window shopping is therefore diminished. Inside the stores, customer service in general is below professional level. The training of sales staff has not been considered priority in current Chinese management. Although no market study has previously been done to document retail activities in Shenzhen, the retailers in Shenzhen should become more aggressive to capture an unrealized segment of the market.
4.4.2 Luxury Housing Market

There are two basic forces shaping the demand for luxury housing in Shenzhen. First, 80% of the units are purchased by overseas Chinese who still have relatives or family ties in China. The majority of the buyers come from Hong Kong, Taiwan and Macau. Units are either used during frequent visits or they are occupied by the buyers' relatives.

Because of the relative ease of entry and exit coupled with convenient transportation by bus, rail and hydrofoil, Hong Kong Chinese frequently travel to visit their relatives in south China. However, there is no reciprocation from the Chinese side since residents are restricted to visit Hong Kong. The prospect of relatives residing in Shenzhen is a practical solution to make frequent family reunions possible. Moreover, providing a comfortable living environment for one's family is highly regarded in the Chinese culture. This "Sentiment Demand" is, to a degree, price inelastic. As a result, the demand of market housing units has seen a large increase in recent years and will continue to grow as long as Hong Kong is showing a healthy economy.

The interest in housing purchase from Taiwanese is a recent phenomenon. In late 1987, the Taiwanese government finally legalised travel to the mainland for the purpose of family reunions. Taiwan's new travel policy is encouraged by the Peoples' Republic of China as part of its long term strategy for national reunification. The Shenzhen Special Economic Zone is a region where preferential treatment is given to Taiwanese visitors. The
preferential treatment includes a policy of expanding mail, shipping and family contacts. Entry and exit visa requirements have been simplified, so that visitors can arrive at the Chinese border without mainland travel documents. Customs regulations have also been eased. Taiwanese residents are allowed to bring some tax-free consumer items as presents for their families. Moreover, the proximity of Shenzhen and its modern amenities make it attractive for frequent return visits. Therefore, many have established Shenzhen as a destination for family reunions and future investment.\(^5\)

The remaining 20% of housing is actively sought by corporations to house their employees and executives. Due to the influx of businesses and the lack of adequate long-term accommodation, the vast majority of foreign representatives resort to living in hotel rooms. There is clearly a need for quality housing that suits the lifestyle of foreign representatives. As a benchmark, apartments lease for US$ 6,000 and US$ 4,000 per month in Beijing and Shanghai respectively. At present, due to the lack of supporting facilities such as recreation and schools, most companies would only send representatives without children. Although this situation may change in the future, the housing demand at present is mostly mid-size units in midrises, detached or semi-detached villas. This employee housing market will closely follow the business climate and rate of job creation by foreign enterprises.

In Shenzhen 77.5% of total investment belongs to industrial investment. The thriving industrial development usually takes the form of joint venture where foreign companies set up plants and send executives, managers and engineers to oversee the local operation and production. At present, the dominating industries are those that will provide technology transfer to China, such as offshore drilling and manufacturing of electronic equipment. Offshore drilling, in particular, is usually associated with long-term time commitment. The presence of these well capitalized oil companies has a positive effect on the Shenzhen economy. Because the Sekou area of the Shenzhen Special Economic Zone has seen a recent boom in the electronics industry, it is believed that shifting plant facilities from Hong Kong to Shenzhen represents a large cost saving in this industry. In 1988, several major Hong Kong electronics manufacturers have proposed to build a facility, called the "Electronics City", in Nantou which is halfway between Futian and Sekou. If the proposal becomes a reality, the manufacturing business will continue to prosper and the housing demand will increase by many folds.

4.5 Deal Structure

The proposed project is a joint venture partnership in the form of a cooperative venture which represents the mutual collaboration between a
Chinese partner and the foreign development team. Conceived in the form of a public-private partnership prototype, the development team will receive land and labor from the Chinese partner in exchange for the construction of a sophisticated public art gallery and a portion of the retail cashflow. The foreign development team contributes design, construction, marketing and management expertise to the project. In addition, a philanthropic foundation will initially bear the construction cost of the gallery, after which sales revenue from the housing project will subsequently create an endowment for the operation of the art gallery. Rental income from retail will bear debt service and the Chinese partner's profit while residual cashflow is distributed among investment partners. Finally it is also hoped that this project will create enough critical mass to stimulate other private development in Futian City Center.

An eight-year cashflow is projected from 1990 to 1997. 1997 coincides with the lease expiration of Hong Kong, in which the British colony will be reverted back to China. Because of the proximity of Shenzhen to Hong Kong and the potential political repercussions, the partnership agreement should either dissolve to avoid further uncertainty or initiate renegotiation. During the seven-year operation period after construction, the distribution of profits between the development team and the Chinese partner will be 80-20. This proportion reflects the upfront cash invested in the project, the technology transfer by the development team and the operating risk born during the project's initial stage. At the end of the partnership agreement, the building will revert to the Chinese for a predetermined price, the transfer
price. The establishment of a transfer price recognizes the value creation of land and improvement.

In the structuring of the project's financial transaction, a philanthropic foundation is the backbone of this deal. The endowment of $1,500,000, most likely in the name of an overseas Chinese, will be devoted to the enhancement of the arts in the Shenzhen Special Economic Zone. The establishment of an art gallery represents a major benchmark to this effort. After the construction of the gallery, the foundation's advisors will continue to administer this endowment separate from the development project. By reinvesting the residual, future donations and revenue from the museum shop, another endowment could be created to fund additional cultural events on the premise and acquisition of artwork.

The composition of the development team should be carefully conceived so that each partner represents an advocate of a vested interest in the project. The investment partners together contribute $17,850,000 as equity to the project. They are identified as follows:

a) The philanthropic foundation - $5,000,000 share. In addition to being a donor, the foundation is also an investment partner. This investor may be an individual or a family foundation that has a long-standing interest in the arts of China.

b) The contractor - $5,000,000 share. This investor is a well capitalized construction company that has a vested interest to continue doing work in
China. With a stake in the deal, the company will also be more sensitive to the timing of construction activities and quality control.

c) An insurance company or pension fund - $5,000,000. share. This is an organization that already has real estate interests in China and is seeking a relatively short term investment for its portfolio.

d) The developer - $1,000,000 share. The developer in this project receives a small portion of residual profits in addition to a development fee paid out on a monthly basis.

After 20% of preferred cashflow is distributed to the Chinese partner, the residual is divided among the investment partners. The residential sales upfront is crucial to the return on equity for the investors. Each of the three $5,000,000-share investor will receive 30% of the net cashflow on a yearly basis while the developer will acquire the remaining 10%. Upon termination of the partnership agreement, the transfer price is also divided in the same structure, three shares of 30% for the investment partners and 10% to the developer.

Because of the project's short-term cash projection and the inherent project risks, only a small portion of the total investment can be assumed by debt. Debt-to-equity ratio and debt-to-value ratio are 0.57 and 0.37 respectively. A US$ 10,000,000 mortgage will be arranged through a consortium of banks with the leading bank being Bank of China or a major bank in Hong Kong. The advantage of borrowing in Hong Kong is the banks' willingness
to finance and their lower rates. In any case, Bank of China will be involved in the capacity of currency exchange, loan guarantees (i.e. letters of credit) and remittances.

Packaged as a construction-takeout loan or mini-perm, interest costs will be born by retail rental income. Since most of the retail transactions are already in the form of credit cards or foreign exchange, the project is structured to incur minimum currency risks by collecting rent payments in equivalent American dollars.

After the residential sales are complete the project will contribute an additional endowment of $1,000,000 to the art gallery foundation. This fund ensures the smooth operation of the gallery in conjunction with property management on the premise. The cross-subsidizing for the arts is also a total integration strategy for the operation of retail.

4.6 Pro Forma

This pro forma is designed to be a planning and decision-making tool as an overview to the economic viability of the proposed project. The financial worksheets aim to portray numerically how the project is likely to fare over

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7 Indexed to LIBOR, London Interbank Offer Rate, typically lower than U.S. prime rate
8 Pro forma calculations and exhibits in Appendix C
a time period of eight years and to identify the risk exposures at various intervals. The data and assumptions are based on field research in China as well as interviews with developers and financial institutions in Hong Kong and the U.S.

Exhibit 1: Development Parameters
A set of variables are stated as assumptions in the pro forma. The categories are site composition, construction costs, operating costs, deal structure and income.

Exhibit 2: Development Costs
The development costs aim to break down the components of hard and soft costs and to identify areas for cost-savings.

Exhibit 3: Income and Expense Analysis
Inflow and outflow of capital is tracked yearly and risk exposure is expressed over time. The incorporation of the endowment fund is essential in showing the financial feasibility of a public-private venture -- the delivery of a public good concurrent with revenue generation.

Exhibit 4: Mortgage Schedule
Debt is paid back over eight years with debt service payment starting the second year. During the construction period, 50% of interest is structured to alleviate the developer's carrying costs.
Exhibit 5: **Cashflow Projection**
Financial obligations (i.e. debt service) is deducted from Net Operating Income. Cashflow is divided into two projections: the investor's and the developer's. Before tax and after tax returns are provided.

Exhibit 6: **Development Return Analysis**
Internal Rate of Return and Net Present Value are mapped out for the developer and the investors such that different interested parties can interpret the numbers with a combination of project risks, financial risks and operational risks. Because of the size of the project, the income tax rate is negotiable with the government. A 5% and 10% tax rate sensitivity analysis is computed.

Through the pro forma analysis, the financial viability of the public-private partnership concept is proved as a stepping stone to implementation. The next stage will begin with the launching of an extensive market study to further identify future trends and prospective tenants, to be followed by negotiating a financial package with the local consortium of banks and approaching investors for a commitment in the project while keeping the Chinese partners interested in the deal.
4.7 Proposed Site

Futian City Center is a planned new town center four km outside Luohu, the current "downtown". The Center lies along both sides of the main east-west arteriole route of the Shenzhen Special Economic Zone, Deep South Road, that links two developed districts of Shenzhen, Luohu and Sekou. The project represents a vertebra of the spine that contributes to the movement and the total functioning of the zone.

The proposed site is a rectangular parcel of 2,000,000 sq ft (46 acres) located in the eastern section of Futian City Center. It has 1,100 ft. of frontage of Deep South Road on the north and 1,100 ft. of Futain Road on the eastern side. While busloads of tourists can easily come to Futain from Hong Kong for sightseeing and shopping, the expatriates living in this project can just as conveniently drive to Hong Kong for shopping and entertainment.

The natural features of the site will be enhanced through the development. Mountain ranges to the north provides a backdrop for the project. The topography on the site, mostly lowlying cultivated land, will be intensified to bring view access towards Hong Kong. There are also numerous ponds on the site originally used for fish breeding and poultry farming. The ecology of this environment will be sensitively conserved so that the local water table is kept. Some of the ponds will be retained as part of the natural landscape while others will be incorporated into the water bodies of the...
garden complex. The balance between the urban cityscape and natural landscape will point to a new direction in the future development of Shenzhen.
DESIGN PROPOSAL
Proposal for Retail and Art Gallery
Site Plan

Source: Shenzhen Masterplan

Proposed Housing

Deep South Road

Proposed Highway

Shenzhen Bay

Futian

Luohu

Area designated for Special Economic Zone

Built-up Area of Hong Kong

Area

Parking

Futian Road (to Highway)
Entry
Retail Buildings
Art Gallery
Walk

in a

Cultural Village

(Quotations adapted from writings of Chung Wah Nan, Louis Kahn and Bernard Rudofsky)
The site....

back drops of rice paddies
and lush green
mountain ranges.

(Temporary workers' housing was occupying
the site as infrastructure was being laid)
The clash of old and new.... in search of a cultural response.
The metaphor of Gardens within a Garden.

The tranquil environment of viewing art and lingering among exhibits is protected from the busy shopping world outside by a thin, perforated separation.

The peaceful environment of browsing and strolling is shielded from the frantic world outside by a metaphoric, inhabitable wall that houses the retail.
Like a Chinese box, it constantly reveals itself as one lid is opened after another.

The strong, hard retail edge fronting the major arteries is analogous to a wall with a thousand gates. One penetrates the inhabitable wall to seek the completely transformed, leisure laden world inside.

A softer edge faces the residential side. The metaphoric wall meanders in and out, and thickens at differentiating intervals to create spatial events.
Cultural distance is a help when it allows us to perceive aspects of form undetected by those intimately involved:

The form of building is a culmination of spatial and structural requirements. Anchoring the base are heavy bearing walls, above which columns rise to support the roof. The flexibility inherited in the system allows light-filtered screen walls to be articulated around the merchandise on display.

"A cultural and temporal distance, by divesting architecture of its day to day practical and representational life, heightens abstraction and (thus) aids in the direct perception of form."
Water: the generator of life.
the mirage of reality.
the eye of the garden.

Water is simultaneously the background
and the foreground.
It is the sunken, subdued form against the
built reality.
It is also the vigorous, liberating form that
sets the built environment free.

Water brings about a focus. The stroll around
the garden is a walk related to the water.
When there is an inlet, one walks to a
pavilion on the water.
When the lake curves the other way, one
tip-toes on the rocks.
Living through one's life is like crossing a bridge.

Bridges are for connecting destinations. Bridges are also for repose and appreciation.

Architecturally a bridge is an interlink between two different spaces. Psychologically a bridge is an intermission through which one prepares oneself for a new space.

Each turn is a refocusing of views in the distance. Each turn is also a new attention to pieces of sculpture strategically placed on the water.
In gardens the walls are used to define space and create distance or depth.

The separation between the inner and outer gardens is a simple, continuous wall with perforations and screens.

*Objects hidden behind a wall create mystery.*

*Walls and footpath together help visitors play the game of hide-and-seek.*

*To hide is to increase the fun of seeking.*

This undulating wall element opens and closes, reaches out around corners and recedes in space. At one point, water flows in underneath an opening. The lake suddenly narrows -- as if it found a magic channel -- to meander its way into the inner gallery complex.
Verticality is inherent in nature in the forms of trees, rocks and mountains.

The free form of the boulder rises with the roofscapes and caresses the pavilions. Plant outgrowths through the rock crevasses exudes life within.

The intricate form of the leafy branches compliments the boldness of the rockeries. These trees also provide a shaded canopy for those longing for a moment away from the sun.

It breaks the monotony of horizontality.

A visual hide-and-seek is created by partial views between the boulders, vegetation and buildings.
We shape clay into an urn. It is the empty void that makes it useful.

The pavilions on the water become enclaves where one sits, talks, contemplates and seeks refuge.

We form doors and windows for a house. It is through these empty voids that the house becomes useful.

Through the openings are framed picturesque views -- a collection of living artwork that the garden forever possesses.
Material, I believe, is spent light. The mountains, the earth, the streams, the air and we ourselves are spent light.

The gallery is a jewel, a meticulously crafted building bathed in subtropical sunlight.

However, the gallery ideally uses indirect light. The permeability of the pavilions in Chinese garden needs reinterpretation. Screen walls are transformed. Doors from each level open to an exterior circulation.
Light is a constant preoccupation, a symbol of the gallery's purpose. The monitor, receiving both north and south light, provides warm and natural illumination.

*Each one of us has a threshold at which the meeting of light and silence lodges. And this threshold, this point of meeting is the position (or the aura) of inspirations.*

Light enters from the monitor and dances around the pitched roof, casting a soft glow for the inhabitants and artwork below.
From this understanding of the process of realization comes form. Form is not shape. Shape is a design affair, but form is a realization of inseparable components. Design calls into being what realization -- form -- tells us.

The gallery is the pavilion of the garden. A square plan conveys its self-contained form and its presence within the meandering walls. The ramps wraps into a continuous terrace for the pavilion.
I think the most inspirational point from which we might try to understand architecture is to regard the room, the simple room, as the beginning of architecture.

The interior is one large room composed of four interlocking levels. Each has partial overhead enclosures and full release of space. The visual hide-and-seek is continued inside the building.
A village is made up of a cluster of similar building types that weave a consistent texture. This texture and grain of the material purposefully deliver a sense of place in the given context.

The Cultural Village is made up of a vocabulary of use-types and building types that reinforce the concept of integrating culture and commerce.
Drawings
In Chinese gardens, exemplification of Ying-yeng cannot be more strongly felt. The relationship between the extreme elements and form is their peaceful co-existence. Images are interpreted as:

"Water follows the mountains; mountain gives way to the water."

"Seeing the large through the small."

"In order to go right, you must go left; in order to go down you must go up first."

"'Few' supasses 'many' as it evokes a sense of infinity."

Motion and repose are in essence relative. Thus the great garden scenes are derived from alternating angles of viewing between mobility and stability.

Because elements co-exist as well as juxtapose, a complex order of layering images is usually found in Chinese gardens. When the subtlety of this layering process unfolds, the sequence appeals to the visual, audio, tactile and olfactory senses. While the following pages are not an analysis of the garden design principles in totality, they do represent frozen frames from a full reel of rich precedents.
Gardens

Within

Garden
Appendix A
17. Human Pipeline
SONG LING
72 x 72 inches
Ink on paper
1985
23. Thunderous Dawn
Dai Hengyang
33½ x 34½ inches
Oil on canvas
1984
31. Dream Girl
Qiu Tao
48 x 32 1/8 inches
Oil on canvas with fabric
1985
Appendix B
Model contract for joint ventures using Chinese and foreign investment

Chapter I General provisions

In accordance with the 'Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment' and other relevant Chinese laws and regulations, Company of China and Company of [Country], adhering to the principle of equality and mutual benefit and through friendly consultations, agree to jointly invest to set up a joint venture in [Province] of the People's Republic of China and enter into the contract hereunder.

Chapter II Parties to the joint venture

ARTICLE 1 The Parties to this contract are:

Company of China, registered in China, with its legal address as [No.], [Street], [District], [City], China.

Legal representative: Name: Position: Nationality:

Company of [Country], registered in , with its legal address as [No.], [Street], [City], [Country].

Legal representative: Name: Position: Nationality:

[Note: In case there are more than two parties to the joint venture, they will be referred to as Party C, D... in proper order.]

Chapter III Establishment of the Joint venture company

ARTICLE 2 The name of the Joint Venture Company shall be __________ Limited Liability Company in Chinese. and __________ in foreign language.

The legal address of the Joint Venture Company is: [No.], [Street], [City], China.

ARTICLE 3 All activities of the Joint Venture Company must be in compliance with the laws, decrees and pertinent rules and regulations of the People's Republic of China.

ARTICLE 4 The form of organisation of the Joint Venture Company shall be a limited liability company. Party A and Party B shall be liable to the debts of the Joint Venture Company within the limit of the capital contribution subscribed by each respectively. The profits, risks and losses shall be shared by the Parties in proportion to their respective amount of contribution to the registered capital.
CHAPTER IV
Purpose, scope and scale of production and operations

ARTICLE 6
The purpose of the joint venture between Parties A and B is: in conformity with the desire to strengthen economic cooperation and technological exchange, to adopt advanced and appropriate technology and scientific methods of operation and management to raise product quality, develop new products and be competitive in the international market both in quality and in price so as to raise beneficial economic results to enable the investing parties to obtain satisfactory economic benefits.

[Note: This article shall be written in accordance with specific conditions in a specific contract.]

ARTICLE 7
The scope of production and operation of the Joint Venture Company shall be:

1. to produce ___________ products; to carry our maintenance services for products after sales; to research and develop new products.

[Note: This article shall be written in accordance with specific conditions.]

ARTICLE 8
The production scale of the Joint Venture Company shall be as follows:

1. The production capacity after the Joint Venture Company is put into operation shall be ___________.

2. The production scale may be increased up to an annual output of ___________, with the development of the production and operation. The product varieties will be developed into ___________.

[Note: It shall be written in accordance with specific conditions.]

CHAPTER V
Total amount of investment and the registered capital

ARTICLE 9
The total amount of investment of the Joint Venture Company shall be Rmb ___________ (or a foreign currency agreed upon by both parties).

ARTICLE 10
The capital contribution to be made by Parties A and B shall be Rmb ___________ in total which will be the registered capital of the Joint Venture Company. Of which: Party A shall contribute ___________ yuan, accounting for ___________ per cent; Party B shall contribute ___________ yuan, accounting for ___________ per cent.

ARTICLE 11
Party A and Party B will contribute the following as their investment:

Party A: cash ________ yuan
machinery and equipment ________ yuan
factory premises ________ yuan

Party B: cash ________ yuan
machinery and equipment ________ yuan
industrial property ________ yuan
others ________ yuan, ________ yuan

in total.

[Note: In the event of contribution in kind or in technology and scientific methods of operation and management to raise product quality, develop new products and be competitive in the international market both in quality and in price so as to raise beneficial economic results to enable the investing parties to obtain satisfactory economic benefits. Party A and Party B shall conclude a separate contract which shall be an integral part of this Contract.]

ARTICLE 12
The registered capital of the Joint Venture Company shall be paid in ___________ instalments by Party A and Party B in accordance with their respective proportion of contribution.

The amount payable in each instalment shall be as follows:

[Note: It shall be written in accordance with specific conditions.]

ARTICLE 13
In the event that either Party A or Party B intends to assign all or part of his capital contribution to a third party, consent must be obtained from the other party to the joint venture, and approval from the examination and approval authority is required.

When one party to the joint venture assigns all or part of its capital contribution, the other party shall have the right of preemption.

CHAPTER VI
Responsibilities of each party to the joint venture

ARTICLE 14
Party A and Party B shall be respectively responsible for completing the following matters:

Responsibilities of Party A:

- to handle applications for approval, registration, business licence and other matters concerning the establishment of the Joint Venture Company from relevant Chinese departments in charge;
- to go through application procedures at the department in charge of land to obtain the right to the use of land;
- to organise the design and construction of the factory premises and other engineering facilities of the Joint Venture Company;
- to provide cash, machinery and equipment and factory premises in accordance with the stipulations in article 11;
- to assist in going through customs declaration procedures for the machinery and equipment contributed by Party B as investment and arrange for transportation within the Chinese territory;
- to assist the Joint Venture Company in purchasing or leasing equipment, materials, raw materials, office appliances, means of transportation and communication facilities, etc.;
- to assist the Joint Venture Company in coordinating and ascertaining the infrastructural facilities such as water, electricity, transportation, etc.;
to assist the Joint Venture Company in recruiting local Chinese operation and management personnel, technical personnel, workers and other personnel required;

- to assist foreign workers and staff in going through necessary procedures for obtaining entry visas, work permits and making travel arrangements;

- to be responsible for handling other matters entrusted by the Joint Venture Company.

Responsibilities of Party B:

- to provide cash, machinery and equipment, industrial property ..... in accordance with the stipulations in article 11, and be responsible for shipping capital contribution in kind such as machinery and equipment, etc. to a Chinese port;

- to handle matters entrusted by the Joint Venture Company relating to the selection and purchase of machinery and equipment, materials, etc. outside China;

- to provide necessary technical personnel for installing, testing and running the equipment, as well as the technical personnel for production and inspection;

- to train the technical personnel and workers of the Joint Venture Company;

- in the event that Party B is also the technology licensor, he shall be responsible for the stable production of qualified products at the design capacity by the Joint Venture Company within the prescribed period;

- to be responsible for other matters entrusted by the Joint Venture Company.

[Note: It shall be written in accordance with specific situation.]

CHAPTER VII

Transfer of technology

ARTICLE 15

Both Party A and Party B agree that a technology transfer agreement shall be entered into by and between the Joint Venture Company and Party ... or a third party so as to obtain advanced production technology, including product design, process, method of testing, materials prescription, standard of quality and the training of personnel, etc. required for accomplishing the production and operation purpose and the scale stipulated in chapter IV in this Contract.

[Note: To be specified in the contract.]

ARTICLE 16

Party B shall provide the following guarantees on the transfer of technology: (Note: This article shall be contained in the joint venture contract only when Party B is responsible for transferring technology to the Joint Venture Company.)

1. Party B shall guarantee that all technology such as the design of [Note: Specify product name] manufacturing technology, technological process, testing and inspection, etc. provided to the Joint Venture Company shall be complete, accurate, reliable and in conformity with the requirements of the operational purpose of the Joint Venture Company, and shall guarantee that the product quality and production capacity required by this Contract shall be attained.

2. Party B shall guarantee that the technology specified in this Contract and the Technology Transfer Agreement shall be fully transferred to the Joint Venture Company, and that the technology to be provided shall be the most advanced technology among similar technology of Party B. that the models and performance quality of the equipment shall be excellent and that they meet the requirements of technical operations and practical usage.

3. Party B shall prepare detailed lists with regard to the technology and technical services to be provided at various stages under the Technology Transfer Agreement, which shall be attached to such agreement as an annex and Party B shall guarantee the implementation of the same.

4. Drawings, technological conditions and other detailed information shall be an integral part of the technology to be transferred, and timely delivery shall be guaranteed.

5. During the effective term of the Technology Transfer Agreement, Party B shall promptly deliver to the Joint Venture Company, without extra charge, any improvement to such technology as well as the information and technical data of such improvement.

6. Party B shall guarantee that the technical personnel and workers of the Joint Venture Company shall be able to master the technology so transferred within the period prescribed in the Technology Transfer Agreement.

ARTICLE 17

In the event that Party B fails to provide equipment and technology in accordance with the stipulations of this Contract and the Technology Transfer Agreement or in case any deceiving or concealing act are found, Party B shall be responsible for compensating for the direct losses of the Joint Venture Company.

ARTICLE 18

The technology transfer fee shall be paid in the form of royalties. The royalty rate shall be per cent of the factory net sales value of the products. The term for royalty payment shall coincide with the term of the Technology Transfer Agreement as stipulated in article 19 of this Contract.

ARTICLE 19

The term of the Technology Transfer Agreement to be entered into by and between the Joint Venture Company and Party B shall be years. After the expiration of the Technology Transfer Agreement, the Joint Venture Company shall have the right to use, research and develop such imported technology continuously. (Note: The term of a technology transfer agreement is generally not longer than 10 years, and the agreement must be approved by the Ministry of Foreign Economic Relations and Trade or other examination and approval authorities entrusted by the Ministry of Foreign Economic Relations and Trade.)

CHAPTER VIII

Sales of products

ARTICLE 20

The products of the Joint Venture Company will be sold both on Chinese domestic markets and on overseas markets; the export portion shall account for per cent and the domestic sales portion shall account for per cent. (Note: An annual percentage and amount for domestic and export sales may be specified based on practical situation. Under normal circumstances, the amount of export sales should at least meet the requirements of foreign exchange expenditure of the Joint Venture Company.)

ARTICLE 21

Products may be sold on overseas markets through the following channels:
—— per cent to be sold directly by the Joint Venture Company outside China. The Joint Venture Company shall enter into a sales contract with a Chinese foreign trade company, entrusting it to be the agent for sales on commission basis or the Chinese foreign trade company shall act as sole agent, which accounts for ——— per cent. ——— per cent to be entrusted by the Joint Venture Company to Party B for sales.

ARTICLE 22
Products of the Joint Venture Company for domestic sales may be sold on a sole agency or commission basis by Chinese departments for supplies or commercial departments, or may be sold by the Joint Venture Company directly.

ARTICLE 23
In order to sell products and to carry out maintenance and repair services for products after sales both in China and abroad, subject to the approval of the relevant Chinese department, the Joint Venture Company may set up branch organisations for sales, maintenance and repair service in China and abroad.

ARTICLE 24
Products of the Joint Venture Company shall use ——— as the trademark.

CHAPTER IX
The Board of Directors

ARTICLE 25
The date of registration of the Joint Venture Company shall be the date of the establishment of the Board of Directors of the Joint Venture Company.

ARTICLE 26
The Board of Directors shall consist of ——— directors, of which ——— shall be appointed by Party A, ——— by Party B. The Chairman of the Board shall be appointed by Party A and its Vice-Chairman by Party B. The Directors, Chairman and Vice-Chairman shall have a term of office of four years, and their term of office may be renewed if they are reappointed by the relevant party.

ARTICLE 27
The Board of Directors shall be the highest authority of the Joint Venture Company. It shall decide all major issues concerning the Joint Venture Company. Major issues (Note: The main contents shall be listed in accordance with article 36 of the Regulations for the Implementation of the Law on Joint Ventures using Chinese and Foreign Investments) shall require unanimous approval before any decisions may be made. With respect to other matters, resolutions may be made upon an affirmative vote by majority or simple majority. (Note: It shall be explicitly stipulated in the specific contract.)

ARTICLE 28
The Chairman of the Board of Directors shall be the legal representative of the Joint Venture Company. In the event that the Chairman of the Board of Directors cannot perform his duties for any reason, he may temporarily authorize the Vice-Chairman or any other Director to act as his representative.

ARTICLE 29
The Board of Directors shall convene at least one meeting every year. Such meetings shall be called and presided over by the Chairman of the Board. The Chairman may convene an interim meeting of the Board of Directors based on a proposal made by more than one-third of the Directors. Minutes of the meetings shall be kept on file.

CHAPTER X
Operation and management organisation

ARTICLE 30
The Joint Venture Company shall establish an operation and management organisation which shall be responsible for its daily operation and management. The operation and management organisation shall have one General Manager, who shall be nominated by Party A, ——— Deputy General Manager(s), of which ——— shall be nominated by Party A and ——— by Party B. The General Manager and Deputy General Manager(s) shall be appointed by the Board of Directors for a term of ——— years.

ARTICLE 31
The responsibility of the General Manager is to carry out the various resolutions of the meetings of the Board of Directors, and organise and direct the daily operation and management work of the Joint Venture Company. The Deputy General Manager(s) shall assist the General Manager in his work. The operation and management organisation may have several department managers who shall be respectively responsible for the work of the various departments of the enterprise, handle matters delegated to them by the General Manager and the Deputy General Manager(s) and be responsible to the General Manager and the Deputy General Manager(s).

ARTICLE 32
In the event of graft or serious dereliction of duty on the part of the General Manager and the Deputy General Manager(s), they may be removed and replaced at any time upon a resolution passed at a meeting of the Board of Directors.

CHAPTER XI
Purchase of equipment

ARTICLE 33
In its purchase of required raw materials, fuel, parts, means of transportation and office supplies, etc., the Joint Venture Company shall give first priority to purchase in China where conditions are the same.

ARTICLE 34
In the event that the Joint Venture Company entrusts Party B with the selection and purchase of equipment from overseas markets, Party A shall be invited to send personnel to participate.

CHAPTER XII
Preparation and construction

ARTICLE 35
During the period of preparation and construction, the Joint Venture Company shall set up a preparation and construction
office under the Board of Directors. The preparation and construction office shall consist of ______ persons, among which ______ persons will be from Party A. ______ persons from Party B. The preparation and construction office shall have one manager who shall be recommended by Party ______ and one deputy manager who shall be recommended by Party ______. The manager and deputy manager of the preparation and construction office shall be appointed by the Board of Directors.

ARTICLE 16
The preparation and construction office shall be specifically responsible for examining the designs of the project, signing project construction contracts, organising the procurement, inspection and acceptance of relevant equipment, materials and other supplies, working out the general schedule of project construction, preparing plans for the application of funds, controlling project financial payments and final accounts of the project, drawing up relevant management measures and carrying out work for safekeeping and collating documents, drawings, files and material, etc. during the course of construction of the project.

ARTICLE 17
A technical group comprised of several technical personnel appointed by Party A and Party B shall be organised. The group, under the leadership of the preparation and construction office, will be in charge of the examination, supervision, inspection, acceptance and performance assessment of the design, the quality of the project, the equipment and materials and the imported technology.

ARTICLE 18
After approval by Parties A and B, the organisation, remunerations and the expenses of the staff of the preparation and construction office shall be covered in the project budget.

ARTICLE 19
After the construction of the factory as well as the turning over procedures have been completed, the preparation and construction office shall be dissolved upon the approval of the Board of Directors.

CHAPTER XIII
Labour management

ARTICLE 40
After the Board of Directors has studied and formulated plans with regard to matters concerning the employment, resignation and dismissal, wages, labour insurance, welfare, rewards and punishments, etc. of the staff and workers of the Joint Venture Company in accordance with the Regulations of the People’s Republic of China on Labour Management in Joint Ventures using Chinese and Foreign Investment and its implementation measures, the Joint Venture Company and the trade union organisation of the Joint Venture Company shall collectively or individually enter into labour contracts covering such matters. After the labour contracts have been executed, they should be filed with the local labour management department for the record.

ARTICLE 41
The appointment of senior management personnel recommended by Parties A and B as well as the standard of their wages and remuneration, social insurance, welfare and travel expenses, etc. shall be discussed and determined in a meeting of the Board of Directors.

CHAPTER XIV
Taxes, finance and auditing

ARTICLE 42
The Joint Venture Company shall pay taxes in accordance with the stipulations of relevant Chinese laws and regulations.

ARTICLE 43
Staff members and workers of the Joint Venture Company shall pay individual income tax in accordance with the Individual Income Tax Law of the People’s Republic of China.

ARTICLE 44
The Joint Venture Company shall set aside the reserve funds, the development funds of the venture and the bonus and welfare funds for staff and workers in accordance with the stipulations in the Law of the People’s Republic of China on Joint Ventures using Chinese and Foreign Investment. The proportion to be set aside annually shall be discussed and decided by the Board of Directors according to the business situations of the company.

ARTICLE 45
The fiscal year of the Joint Venture Company shall be from 1 January to 31 December. All accounting vouchers, bills, statements and reports, and books of accounts shall be written in Chinese. [Note: May also be written in a foreign language agreed upon by both Party A and Party B.]

ARTICLE 46
An accountant registered in China shall be engaged to examine and verify the financial and auditing masters of the Joint Venture and the results thereof shall be reported to the Board of Directors and the General Manager. If Party B deems it necessary to engage an auditor from another country to examine the annual financial masters, Party A shall give its consent. All expenses required shall be borne by Party B.

ARTICLE 47
During the first three months of each business year, the General Manager shall organise and prepare the balance sheet, profit and loss statement and profit distribution plan for the preceding year and submit the same for examination and approval at the meeting of the Board of Directors.

CHAPTER XV
Term of the joint venture

ARTICLE 48
The term of the Joint Venture Company shall be ______ years. The date of establishment of the Joint Venture Company shall be the date on which the business licence of the Joint Venture Company is issued. At the proposal of one party and upon unanimous approval in a meeting of the Board of Directors, an application may be filed with the Ministry of Foreign Economic Relations and Trade for its delegated examination and approval authority six months prior to the expiration of the joint venture term for an extension of the joint venture term.
CHAPTER XVI

The disposal of properties upon the expiration of the joint venture term

ARTICLE 49
Upon the expiration of the joint venture term or early termination of the joint venture, the Joint Venture Company shall carry out liquidation in accordance with law. The properties after liquidation shall be distributed in proportion to the respective investment of Party A and Party B.

CHAPTER XVII

Insurance

ARTICLE 50
Insurance policies of the Joint Venture Company on various kinds of risks shall be purchased from the People's Insurance Company of China. The types, the value and the term of insurance shall be discussed and decided at a meeting of the Board of Directors of the Joint Venture Company in accordance with the stipulations of the People's Insurance Company of China.

CHAPTER XVIII

The amendment, alteration and discharge of the contract

ARTICLE 51
Any amendment to this Contract and the annexes hereto may enter into effect only after a written agreement is signed by both Party A and Party B and approved by the original examination and approval authority.

ARTICLE 52
In the event that the Contract cannot be performed due to force majeure or that the Joint Venture Company is unable to continue operations due to successive years of losses, the term of the joint venture may be brought to an early termination and the Contract discharged upon the unanimous adoption of such a resolution by the Board of Directors and approval by the original examination and approval authority.

ARTICLE 53
Should the Joint Venture Company be unable to continue its operations or achieve the business purpose stipulated in the Contract due to the fact that one of the contracting parties fails to fulfill the obligations prescribed under the Contract or the Articles of Association, or seriously violates the stipulations of the Contract or the Articles of Association, such defaulting party shall be deemed to be unilaterally terminating the Contract. The other party, in addition to having the right to claim compensation from the defaulting party, shall also have the right to terminate the Contract upon approval by the original examination and approval authority in accordance with the provisions of the Contract. In the event that Party A and Party B agree to continue the operation, the defaulting party shall be liable to compensate the Joint Venture Company for its economic losses.

CHAPTER XIX

Liabilities for breach of contract

ARTICLE 54
Should either Party A or Party B fail to make the capital contribution on schedule and in the amount as stipulated in chapter V of this Contract, the defaulting party shall pay an overdue fine to the other party, for every month in arrears, at 15 per cent of the amount of capital contribution due starting from the first month payment is overdue. Should the defaulting party fail to pay after three months, in addition to payment by the defaulting party of the accumulated overdue fine at 15 per cent of the amount of capital contribution due, the other party shall also have the right to terminate the Contract and to claim damages from the defaulting party in accordance with article 53 of this Contract.

ARTICLE 55
In the event that this Contract and its annexes cannot be performed or fully performed due to the fault of one party, the party at fault shall bear the responsibility for default. Should it be the fault of both parties, the parties shall bear their respective responsibilities for default based on the actual situation.

ARTICLE 56
In order to guarantee the performance of this Contract and its annexes, both Party A and Party B shall each provide the other with a bank's letter of guaranty for performance.

CHAPTER XX

Force majeure

ARTICLE 57
In the event that the performance of the Contract is directly affected or that the Contract cannot be performed in accordance with the terms and conditions agreed upon as a result of earthquake, typhoon, flood, fire, war or any other events of force majeure that is unforeseeable and the occurrence and consequence of which is unpreventable or unavoidable, the party that encounters the aforesaid events of force majeure shall immediately notify the other party of the conditions of the event by cable and shall, within 15 days, provide details of the event and valid certifying documents evidencing the reasons as to why the Contract cannot be performed in full or in part or the performance of which needs to be postponed. Such certifying documents should be issued by a notary organisation in the place where the event occurred. Based on the extent of the effect such event has on the performance of the Contract, the parties shall consult and decide whether or not the Contract should be discharged, or part of the responsibilities for the performance of the Contract should be relieved, or the performance of the Contract should be postponed.

CHAPTER XXI

Applicable law

ARTICLE 58
The execution, validity, interpretation, performance and settlement of disputes of this Contract shall be governed by the laws of the People's Republic of China.
CHAPTER XXII
Settlement of disputes

ARTICLE 59
Any disputes arising from the performance of, or in connection with this Contract shall be settled through friendly consultations between both parties. In case no settlement can be reached through consultations, the disputes shall be submitted to the Foreign Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade for arbitration in accordance with its provisional rules of arbitration procedures. The award of such arbitration shall be final and binding upon both parties.

Or

Any disputes arising from the performance of, or in connection with this Contract shall be settled through friendly consultations between both parties. In case no settlement can be reached through consultations, the disputes shall be submitted to the Arbitration Organization in [Place], [Country] for arbitration in accordance with its rules of arbitration procedures. The award of such arbitration shall be final and binding upon both parties.

Or

Any disputes arising from the performance of, or in connection with this Contract shall be settled through friendly consultations between both parties. In case no settlement can be reached through consultations, the disputes shall be submitted for arbitration. Arbitration shall take place in the defendant's country.

If in China, arbitration shall be conducted by the Foreign Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in accordance with its provisional rules of arbitration procedures. If in [Name of defendant's country], arbitration shall be conducted by [Name of arbitration organization of defendant's country] in accordance with its rules of arbitration procedures. The award of such arbitration shall be final and binding upon both parties.

[Note: When formulating contracts, only one of the above mentioned three ways can be used.]

ARTICLE 60
During the course of arbitration, the Contract shall continue to be performed except for the part which the Parties are disputing and which is undergoing arbitration.

CHAPTER XXIII
Language

ARTICLE 61
This Contract has been written in Chinese and in _______. Both languages are equally authentic. In the event of any discrepancy between the two aforementioned texts, the Chinese text shall prevail.

CHAPTER XXIV
Effectiveness of the contract and miscellaneous

ARTICLE 62
The following ancillary agreements and documents concluded in accordance with the principles stipulated under this Contract including: the Articles of Association of the Joint Venture Company, project agreement, the technology transfer agreement, the sales agreement ______ shall all be an integral part of this Contract.

ARTICLE 63
This Contract and its annexes shall be subject to the approval of the Ministry of Foreign Economic Relations and Trade of the People's Republic of China (or its entrusted examination and approval authority) and shall become effective as of the date of approval.

ARTICLE 64
With respect to the methods by which Parties A and B send notices, all notices given by cable or telex should be followed by a notice in the form of a written letter if the contents of such notices involve the rights and obligations of the Parties. The legal addresses of Parties A and B set forth in this Contract shall be the posting addresses of Parties A and B.

ARTICLE 65
This Contract has been executed by the authorized representatives of Party A and Party B in _______ China on this _______ 198____

For, __________
Company of China
(Signature)

For, __________
Company of [Country]
(Signature)
EXHIBIT 1: DEVELOPMENT PARAMETERS

PROJECT: Futian Mixed-use Development
LOCATION: Shenzhen Special Economic Zone, China
CONSTRUCTION START: Jan, 1990

SITE COMPOSITION

<table>
<thead>
<tr>
<th>Site Area</th>
<th>Sq m</th>
<th>Sq ft</th>
<th>Units</th>
<th>Unit Size (Sq ft)</th>
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</thead>
<tbody>
<tr>
<td>Residential</td>
<td>9,600</td>
<td>101,376</td>
<td>60</td>
<td>1,690</td>
</tr>
<tr>
<td>Mid-rise (hous_m)</td>
<td>9,600</td>
<td>101,376</td>
<td>80</td>
<td>1,267</td>
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<tr>
<td>Villas (hous_v)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Retail Phase 1</td>
<td>6,000</td>
<td>63,360</td>
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<tr>
<td>Public Building</td>
<td>700</td>
<td>7,392</td>
<td></td>
<td></td>
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<tr>
<td>Art Gallery (art_g)</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Landscaping</td>
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<td>84,480</td>
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TOTAL BUILT AREA 39,900 336,864

CONSTRUCTION COSTS

<table>
<thead>
<tr>
<th>Residential Villa ($)hous_v</th>
<th>US $/sf</th>
<th>MAIN_X</th>
<th>E64</th>
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<tbody>
<tr>
<td>Mid-rise ($)hous_m</td>
<td>55</td>
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<td></td>
</tr>
<tr>
<td>Retail ($)ret</td>
<td>60</td>
<td></td>
<td></td>
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<tr>
<td>Public Gallery ($)art_g</td>
<td>70</td>
<td></td>
<td></td>
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<tr>
<td>Site &amp; landscaping ($)site</td>
<td>20</td>
<td></td>
<td></td>
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</table>

OPERATING COSTS

<table>
<thead>
<tr>
<th>US $/sf per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>Maintenance ($)ret_op</td>
</tr>
</tbody>
</table>
Maintenance ($art_op) 20
Curator ($art_cur) 45,000 (Salary per year)

Growth Index
Retail Rent (rent_X) 6.0%
Maintenance (main_X) 5.0%
Cap Rate (cap_X) 17.0%

DEAL STRUCTURE
Equity (equity) US $
Investor 1 (equ-inv) 17,500,000
Investor 2 5,000,000
Investor 3 5,000,000
Developer (equ-dev) 1,000,000
Philanthropic Endowment (end-phil) 1,500,000

Loan (loan) 10,000,000
Interest rate (XX) 10.5%
Term (term) 7
Points (points) 1.00%

Endowment
Project Endowment (endow) 1,000,000
Philanthropic Foundation (end-phil) 1,500,000
Yield (endow_yield_X) 10.0%

Profit Sharing of Cashflow
Chinese JV Partner 20% (Preferred)
Investor 1 30% (Residue)
Investor 2 30% (Residue)
Investor 3 30% (Residue)
Developer 10% (Residue)

Transfer Price ($transfer) 15,000,000

Profit Sharing of Transfer Proceeds
Investor 1 30%
Investor 2 30%
Investor 3 30%
Developer 10%

INCOME
Average Sales Price
US $/sf
US $/unit
### Exhibit 2: Development Cost Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity</th>
<th>Cost Estimate</th>
<th>Construction Cost</th>
<th>Total Cost</th>
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<tr>
<td></td>
<td></td>
<td>(US $/sf)</td>
<td>(sf)</td>
<td>US $</td>
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<tr>
<td></td>
<td>Land</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td></td>
<td>IMPROVEMENTS - Hard Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Residential</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Villa</td>
<td>855</td>
<td>101,376</td>
<td>5,575,680</td>
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<td>Midrise</td>
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<td>6,589,440</td>
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<td></td>
<td>Retail</td>
<td>60</td>
<td>726,720</td>
<td>7,603,200</td>
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<td></td>
<td>Gallery</td>
<td>70</td>
<td>7,392</td>
<td>517,440</td>
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<td></td>
<td>Site &amp; Landscaping</td>
<td>20</td>
<td>86,480</td>
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<tr>
<td></td>
<td>Excavation</td>
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<td>TOTAL IMPROVEMENT</td>
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<td></td>
<td>INDIRECT - Soft Costs</td>
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<tr>
<td></td>
<td>Architecture &amp; Engineering</td>
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<td></td>
<td>US $</td>
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<tr>
<td></td>
<td>Development Fee (5%)</td>
<td>1,103,768</td>
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<tr>
<td></td>
<td>Legal &amp; Accounting</td>
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<td></td>
<td>110,377</td>
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<tr>
<td></td>
<td>Marketing (2%)</td>
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<td></td>
<td>441,507</td>
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<tr>
<td></td>
<td>Insurance (0.5%)</td>
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<td>110,377</td>
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<tr>
<td></td>
<td>Surveys/Permits (5%)</td>
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<td>1,089,400</td>
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<td></td>
<td>Taxes</td>
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<td></td>
<td>Loan Fees</td>
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<td></td>
<td>100,000</td>
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<tr>
<td></td>
<td>Contingency (5%)</td>
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<tr>
<td></td>
<td>TOTAL INDIRECT</td>
<td></td>
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<td>5,133,182</td>
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### EXHIBIT 3: INCOME & EXPENSE ANALYSIS

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<td>1997</td>
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</thead>
<tbody>
<tr>
<td>Residential Sales</td>
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<tr>
<td>Retail Rental Income</td>
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<td>4,394,016</td>
<td>4,394,016</td>
<td>4,394,016</td>
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<td>Retail Operating costs</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Maintenance</td>
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<td>599,168</td>
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<td>Refurbishment</td>
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<td>Endowment Income</td>
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<td>Construction Cost</td>
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### EXHIBIT 4: MORTGAGE SCHEDULE

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<thead>
<tr>
<th>Loan (loan)</th>
<th>10,000,000</th>
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<td>Interest rate (%)</td>
<td>10.50%</td>
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<tr>
<td>Term (years)</td>
<td>7</td>
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<tr>
<td>Debt Service</td>
<td>2,087,987</td>
</tr>
<tr>
<td>Year</td>
<td>Activity</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td>1</td>
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<tr>
<td>3</td>
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<td>5</td>
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<tr>
<td>7</td>
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<td>8</td>
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EXHIBIT 5: CASHFLOW PROJECTION

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity</th>
<th>Equity</th>
<th>Mortgage</th>
<th>Interest Only Payment</th>
<th>Debt Service</th>
<th>Development Fee</th>
<th>Project Endowment</th>
<th>CASHFLOW: Project</th>
<th>CASHFLOW: Investor 1</th>
<th>CASHFLOW: Investor 2</th>
<th>CASHFLOW: Investor 3</th>
<th>CASHFLOW: Investor 1,2,3</th>
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<tbody>
<tr>
<td>1</td>
<td></td>
<td>(21,886,302)</td>
<td>13,952,280</td>
<td>(472,500)</td>
<td>(2,087,987)</td>
<td>(137,971)</td>
<td>(1,000,000)</td>
<td>(22,496,775)</td>
<td>10,726,322</td>
<td>1,474,536</td>
<td>1,439,859</td>
<td>1,809,270</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>13,952,280</td>
<td>3,994,848</td>
<td>0</td>
<td>(2,087,987)</td>
<td>(137,971)</td>
<td>(1,000,000)</td>
<td>1,474,536</td>
<td>1,439,859</td>
<td>1,809,270</td>
<td>1,768,890</td>
<td>1,889,581</td>
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<tr>
<td>5</td>
<td></td>
<td>3,994,848</td>
<td>3,994,848</td>
<td>0</td>
<td>(2,087,987)</td>
<td>(137,971)</td>
<td>(1,000,000)</td>
<td>1,474,536</td>
<td>1,439,859</td>
<td>1,809,270</td>
<td>1,768,890</td>
<td>1,889,581</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>3,994,848</td>
<td>3,994,848</td>
<td>0</td>
<td>(2,087,987)</td>
<td>(137,971)</td>
<td>(1,000,000)</td>
<td>1,474,536</td>
<td>1,439,859</td>
<td>1,809,270</td>
<td>1,768,890</td>
<td>1,889,581</td>
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<tr>
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<td></td>
<td>3,994,848</td>
<td>3,994,848</td>
<td>0</td>
<td>(2,087,987)</td>
<td>(137,971)</td>
<td>(1,000,000)</td>
<td>1,474,536</td>
<td>1,439,859</td>
<td>1,809,270</td>
<td>1,768,890</td>
<td>1,889,581</td>
</tr>
<tr>
<td></td>
<td>Before Tax</td>
<td>5% Tax</td>
<td>10% Tax</td>
<td>(including development fee)</td>
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</tr>
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</tr>
<tr>
<td></td>
<td>Developer</td>
<td></td>
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<tr>
<td>283</td>
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<td>13.3%</td>
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<tr>
<td>285</td>
<td>Cashflow: Developer</td>
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<td>279,482</td>
<td>277,866</td>
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<tr>
<td>286</td>
<td>5% Tax</td>
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<tr>
<td>287</td>
<td>10% Tax</td>
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<td>288</td>
<td>CASHFLOW:</td>
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<td>242,713</td>
<td>240,168</td>
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<tr>
<td>289</td>
<td>NET PRESENT VALUE</td>
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Wong, K. *Shenzhen Special Economic Zone*, Hong Kong Geographical Association, Hong Kong, 1982.