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PricewaterhouseCoopers
21/F, Sunning Plaza
10 Hysan Avenue
Hong Kong
Telephone: 852 2504 6643
Fax: 852 2890 3187

To: Miss Eva Cheng
Company: Information Technology and Broadcasting Bureau
Fax No: 2827 2424
From: Mark Ambler
Fax No: 2890 3313
Date: 25 January, 1999
Pages: 3

(incl. This pg) If this fax is incomplete or illegible please telephone

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Dear Miss Eva Cheng

We have evaluated the financial costs of the Government developing the Cyberport to the same specification as Option 1. In doing so we have made a few amendments to the previously described Option 1 and Option 2.

Please find attached our analysis.

Kind regards,



~~Mark Ambler~~

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Financial costs and benefits of the development

As requested by the Government we have considered a variant of Option 2 (i.e. Option 2a).

Option 2a has been modelled on the basis that the Government develops the Cyberport to the same specification as Option 1. Under this option the Government would be responsible for funding, building and operating the Cyberport. The assumption is that the Government will retain the Waterfall Golf Driving Range site for future disposal for housing. However, the site could not be disposed of until after the Cyberport is completed because limited road access and other site difficulties would rule out simultaneous development of the Cyberport and residential projects by different developers.

We have also made some amendments to Option 1 and Option 2 as follows:

- 1) Total costs have been revised to include maintenance expenses equal to 10% of rental revenue (affects - Option 1 and Option 2).

These expenses relate to ownership expenses which include letting expenses, landlord repairs, management organisation expenses and other expenses to be borne by the landlord. It should be noted that the industry norm assumes 10% on market rate rental revenue. The Cyberport is expected to charge a lower than market rate rental and the corresponding 10% maintenance expenses could therefore be stated at the low end of the requirement; and (Source: Cyberport project team: PCG management, Larry H.C. Tam & Associates, Levitt & Bailey)

- 2) Interest expense has been revised:

- to include interest expense to 2028 (previously to 2025). This incorporates the interest expense during the period of construction and over the rental period from 2004 to 2028 (affects Option 2 only);
- to include the additional interest expense due to higher maintenance expenses (as described above) (affects Option 2 only); and
- to include the costs of financing the external works and infrastructure costs which was incorrectly omitted (affects Option 2 only).

- 3) Rental revenue assumptions have been revised to include revenues from 1999 to 2028 only. This matches revenues and interest expenses during these periods for all options, making the options easier to compare (affects - Option 1 and Option 2).

The key results of the analysis are summarised below and we have attached a summary of the key assumptions of Option 2a.

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	Revised Option 1	Revised Option 2	Option 2a
Total GFA constructed in square metres	734,030 ¹	420,000	241,200 ²
	HKS million	HKS million	HKS million
PCG's Cash Flows			
Revenue from sale of residential property	22,719	N/A	N/A
Residential costs before financing	(10,477)	N/A	N/A
Cyberport costs before financing	(6,903)	N/A	N/A
Total costs before financing	5,340	N/A	N/A
Interest expense	(2,902)	N/A	N/A
Total cash flows after financing	2,437	N/A	N/A
Government's Cash Flows			
Rental revenue (1999 - 2028)	8,657	15,549	8,187
Total costs (1999 - 2028)	(1,414) ⁴	(12,313) ⁵	(8,131) ⁶
Cash flows before financing (1999 - 2028)	7,243	3,236	56
Interest expense ³ (1999 - 2028)	0	(14,707)	(11,965)
Cash flows after financing (1999 - 2028)	7,243	(11,471)	(11,910)

1 Cyberport 241,200 + Residential 492,830

2 Equal to Cyberport in Option 1

3 Interest expense for period of construction and over the rental period from 1999 to 2028

4 We have corrected this figure, which previously omitted the maintenance expenses in the later years equal to HK\$719 million (695 + 719 = 1,414).

5 We have corrected this figure, which previously omitted the maintenance expenses in the later years equal to HK\$1,448 million (10,942 + 1,371 = 12,313).

6 This equates to the total cost of the Cyberport before financing of HK\$ 7,313 million (see Levett & Bailey summary attached) plus maintenance expenses of HK\$819 (Rental revenue of HK\$8,187 million times 10%) (note: difference of HK\$1million is due to rounding)

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Major assumptions for Option 2a - Government Led Development using the same GFA for Cyberport as Option 1

Introduction

The cashflow projections are based on assumptions regarding the size of the project (site area and gross floor area), the timetable of construction, construction costs, occupancy rates and rental and sales revenues.

PCG believes these assumptions to be reasonable based upon the experience of other development projects and through discussion with their project team which includes Larry H.C. Tam & Associates, Maunsell Consultants Asia Ltd, City Planning Consultants Ltd, Levett & Bailey and Wong Tung & Partners Limited.

PricewaterhouseCoopers has relied on PCG and their project team to provide us with and we have compiled the cash flow projections based on these assumptions.

The cashflow projections have been prepared on a quarterly basis starting in Q4 of 1999. All cost and revenue assumptions are expressed in real terms.

The principal assumptions are summarised below in the following categories:

- A Area assumptions
- B Construction timetable and costs
- C Revenue assumptions
- D Financial assumptions

A Area assumptions

Area assumptions are the same as Option 1 - Cyberport.

Site area Cyberport: 160,820 sq. m
(Source: Wong Tung & Partners Limited)

GFA (sq. metres) Cyberport	Phase 1	Phase 2	Phase 3	TOTAL
Low rise residential	0	7,236	21,709	28,945
Mid rise residential	0	12,060	36,180	48,240
Serviced apartments	0	4,580	0	4,580
Office	46,311	23,156	46,311	115,778
Hotel	0	0	7,477	7,477
Commercial	0	18,090	18,090	36,180
Total (sq. metres)	46,311	65,122	129,767	241,200
Carpark (spaces)	0	600	1,400	2,000

Source: Wong Tung & Partners Limited

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B Construction timetable and costs

Construction timetable is the same as Option 2.

Construction costs are assumed to accumulate evenly over the following construction periods.

Construction timetable	Construction starts	Construction finishes
Cyberport		
Infrastructure costs	1999 Q4	2001 Q4
External works costs	2003 Q3	2004 Q4
Phase 1	2002 Q1	2003 Q4
Phase 2	2002 Q1	2003 Q4
Phase 3	2002 Q3	2004 Q4

Source: Cyberport project team (PCG management, Larry H.C. Tam & Associates, Levett & Bailey)

Construction costs are the same as Option 1 - Cyberport.

Construction costs		Cyberport
Infrastructure costs	HKS million total cost	578
External works costs	HKS million total cost	230
Low rise residential*	HKS per meter square	20,772
Mid rise residential*	HKS per meter square	15,763
Serviced apartments*	HKS per meter square	21,476
Carpark (spaces)	HKS per space	180,000
Office	HKS per meter square	20,038
Hotel	HKS per meter square	25,411
Commercial	HKS per meter square	25,014

*adjusted to include recreational costs on a pro-rata GFA basis

Source: Levett & Bailey

Other costs assumptions are the same as Option 1 & 2 - Cyberport.

Other costs	Expressed as % of total construction costs
Cyberport	
Contingency	10%
Professional fees	7%*
Project management fees	3%
Maintenance expense**	10%

*These costs are weighted towards the early periods

** expressed as a % of rental revenue. These expenses relate to ownership expenses which include letting expenses, landlord repairs, management organisation expenses and other expenses to be borne by the landlord. It should be noted that the industry norm assumes 10% on market rate rental revenue. The Cyberport is expected to charge a lower than market rate rental and the corresponding 10% maintenance expenses could be stated at the low end of the requirement

Source: Cyberport project team (PCG management, Larry H.C. Tam & Associates, Levett & Bailey)

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C Revenue assumptions

Revenue assumptions are the same as Option 2.

Occupancy rates under Option 2 are projected be lower than Option 1.

Occupancy rates of Cyberport	Q1	Q2	Q3	Q4	Q5	Q6*
Phase 1						
Low rise residential	17%	33%	50%	67%	83%	100%
Mid rise residential	17%	33%	50%	67%	83%	100%
Serviced apartments	17%	33%	50%	67%	83%	100%
Carpark (spaces)	17%	33%	50%	67%	83%	100%
Office	17%	33%	50%	67%	83%	100%
Hotel	25%	50%	75%	100%	100%	100%
Commercial	17%	33%	50%	67%	83%	100%
Phase 2						
Mid rise residential	25%	50%	75%	100%	100%	100%
Serviced apartments	25%	50%	75%	100%	100%	100%
Carpark (spaces)	25%	50%	75%	100%	100%	100%
Office	25%	50%	75%	100%	100%	100%
Hotel	25%	50%	75%	100%	100%	100%
Commercial	25%	50%	75%	100%	100%	100%
Carpark	25%	50%	75%	100%	100%	100%
Phase 3						
Mid rise residential	17%	33%	50%	67%	83%	100%
Serviced apartments	17%	33%	50%	67%	83%	100%
Carpark (spaces)	25%	50%	75%	100%	100%	100%
Office	25%	50%	75%	100%	100%	100%
Hotel	25%	50%	75%	100%	100%	100%
Commercial	25%	50%	75%	100%	100%	100%
Carpark	25%	50%	75%	100%	100%	100%

Source: Cyberport project team (PCG management, Larry H.C. Tam & Associates, Levett & Bailey)

*Number of quarters post-completion assuming it takes one quarter to fit out

Rental assumptions are the same as Option 1 & 2.

Cyberport rent in HK\$ per square foot	Phase 1	Phase 2	Phase 3
Low rise residential	10.00	10.00	10.00
Mid rise residential	10.00	10.00	10.00
Serviced apartments	15.00	15.00	15.00
Carpark (per space)	1,500	1,500	1,500
Office	6.50	6.50	6.50
Hotel	7.00	7.00	7.00
Commercial*	10.00	10.00	20.00

*We have assumed that after two years HK\$20 will be received for the commercial space.

Source: Larry H.C. Tam & Associates

These assumptions are consistent with Option 1.

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D Financial assumptions

Interest rate

Interest assumptions are the same as Option 2.

Government's real interest rate is assumed to be 5%. Interest is charged on a quarterly basis on the average balance of each quarter.

Source: PCG management

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Levett & Bailey
 Chartered Quantity Surveyors

利比 建築工程測量師

HONG KONG CYBERPORT
PRELIMINARY INDICATION OF COSTS
 (at January 1999 prices)

18/1/99

1. CYBERPORTSite area = 140,300m²Total GFA = 241,230m²

	Estimated Costs	
	HK\$M	HK\$M
A. Infrastructure		
a. Site Formation, Access Road and Permanent Sewage Treatment (by Government)		
Site stabilization including surcharge		50.00
Site Formation (site area = 140,300m ² approx)		20.00
Southern access road to Victoria Road (assume about 11,500 m ²)		50.00
Road D1 (within site) (assume about 22,000 m ²)		50.00
Road D2 (assume about 4,000 m ²)		23.00
Northern access road to She Wan Drive (assume about 6,300 m ²)		45.00
Permanent sewage treatment plant		30.00
	Sub-total A(a)	<u>338.00</u>
b. Site Formation and Utilities (by Developer)		
Temporary Sewage treatment plant		20.00
Internal Road		20.00
Underground drainage, incoming services and distribution		160.00
Temporary access road		30.00
Temporary pier (for construction)		10.00
	Sub-total A(b)	<u>240.00</u>
B. Buildings		
Commercial Office (115,778 m ² @ \$20,000/m ²)		2,320.00
Cyber Mall (39,180 m ² @ \$25,000/m ²)		905.00
Low Rise Residential including Houses (29,945 m ² @ \$20,000/m ²)		580.00
Mid Rise Residential (48,240 m ² @ \$15,000/m ²)		725.00
Serviced Apartment (4,580 m ² @ \$20,000/m ²)		85.00
Hotel (7,477 m ² @ \$25,000/m ²)		190.00
Recreational i.e. tenants club (4000m ² @ \$15,000)		60.00
Carpark (say 2,000 No @ \$180,000/No)		360.00
	Sub-total (B)	<u>5,235.00</u>
C. External Works		
Park and landscaped external areas (allowance)		200.00
Lake or water feature (allowance)		30.00
	Sub-total (C)	<u>230.00</u>
D. Contingencies (10% allowance)	29.00	571.00
E. Professional Fees (7% consultant + 3% PM)	43.00	827.00
Total for CYBERPORT (A to E)	<u>410.00</u>	<u>6,903.00</u>
		<u>7,313</u>

Note: Refer to page 3 for the list of Excluded Items

Refer to page 4 on allocation of construction costs of recreational area