



Our Ref: ITBB (CR) 6/10/3

11 February 1999

Mr Richard Li  
Pacific Convergence Corporation  
38/F, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central, Hong Kong

*Dear Richard*

### Proposed Cyberport Development

Thank you for your letters of 27 January and 3 February in which you outlined your revised proposal. We have studied your proposal very carefully and had extensive discussions with your colleagues. In this letter, we would like to set out our suggested modifications to the current arrangement you have proposed.

Our suggestions have been drawn up taking into account the following considerations :

- (a) The Government fully endorses the proposed development of the Cyberport which should provide sustained benefits to the Hong Kong economy. We appreciate and recognise the initiatives taken by the Pacific Century Group in putting the proposal together.
- (b) The Cyberport must be an integrated development and there should be one single agent undertaking the design and construction of the project.
- (c) Our suggestions have taken PCG's assumptions of contribution towards the project, which we have derived from your revised proposal and our various correspondence, as the starting point. In other

words, we have worked on the basis that PCG will not be taking on more risks than it has already assumed. In fact, we believe our suggestions help cap the risks PCG would take on.

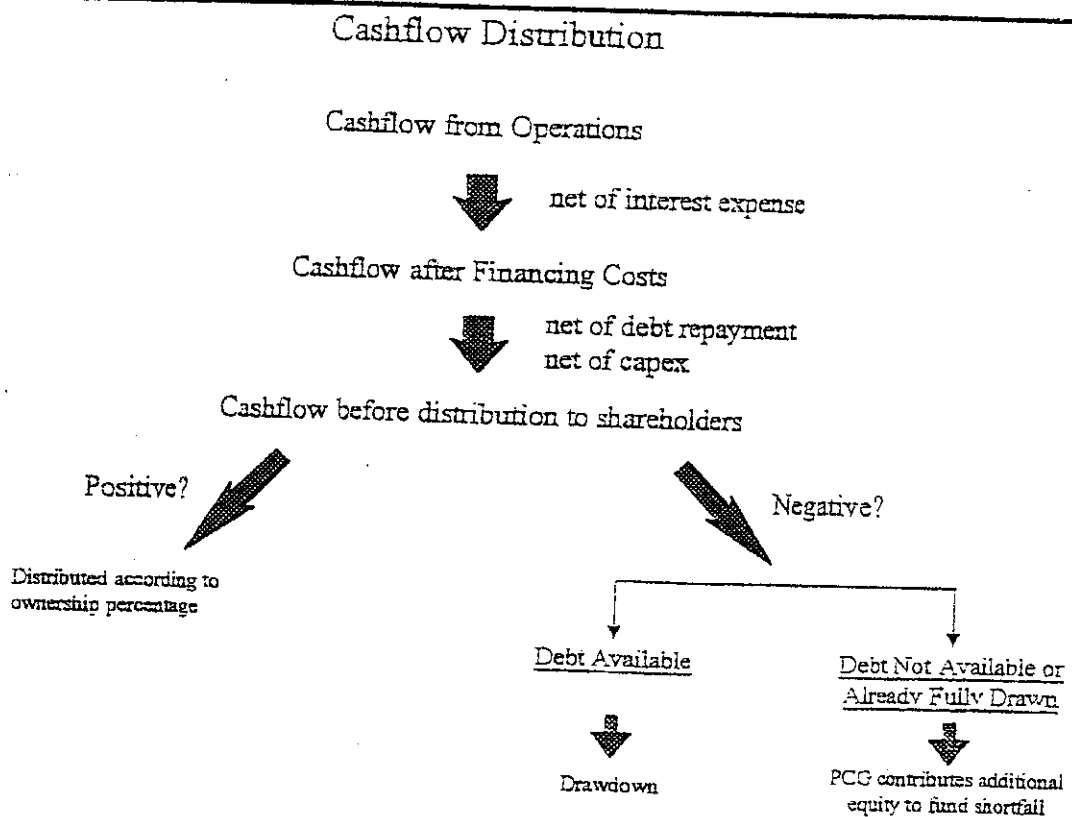
- (d) The Cyberport project will attract a lot of public attention and, therefore, close public scrutiny. One of the main challenges for us in ensuring the smooth implementation of the Cyberport project is to obtain public and Legislative Council support for the structure and the financial terms of the project. We believe the suggestions we now put forward will provide better assurance of success in this endeavour.

In view of the above, we would like to outline our principal suggested amendments to PCG's proposed joint venture structure as follows:

- Ownership
  - The Government will provide the Pok Fu Lam site for the Cyberport development. The land premium of the site, together with the cost of associated investment in infrastructure, which is currently estimated at HK\$7.05 billion (subject to further assessment) and HK\$548 million respectively, will be injected into the joint venture as equity.
  - Our respective ownership interests during the life of the joint venture will be based on the equity contribution by the Government (consisting of land premium and infrastructure costs as set out in the preceding bullet) and the equity contribution by PCG.
  - Government may sell part of its equity stake to third parties during the life of the joint venture to encourage broader participation in the Cyberport project. Such shares will be subject to the same conditions, e.g. special conditions on voting rights, as may be agreed between Government and PCG.

- Financing alternatives for the joint venture
  - It is contemplated that the site will be injected into the joint venture under two private treaty grants ("PTG"), one for the residential development which could be offered for sale to the open market and the other for the Cyberport development. The combined site may be used as collateral to obtain commercial borrowings at the joint venture level.
  - The joint venture should borrow as much as it can, but based on the current banking environment, we estimate that the maximum loan to value of the land site would be 50%, which represents a maximum borrowing capacity of approximately HK\$3.5 billion.
  - The attached financial analysis assumes that equity injection by PCG will be made only after exhaustion of the borrowing capacity. However, to underline PCG's commitment to the project, we would like to see an earlier/phased equity injection or equity commitment by PCG, the exact amounts to be determined after discussion.
- Funding shortfall
  - Any shortfall in the project should first be funded by commercial borrowings up to a maximum of HK\$3.5 billion (based on current estimation).
  - If such borrowings are not available or if additional equity contribution is required after maximum borrowing limit is reached, PCG will be responsible for funding the differential through equity injection.
  - The Government's commitment to the project will be limited to contributing the Pok Fu Lam site and certain agreed infrastructure investments. The Government is not in a position to provide additional equity into the project.

- Cashflow distribution to shareholders
  - Distributable cashflow to shareholders (i.e. cashflow from operations net of financing costs, debt repayment, capital expenditures and taxes) will be distributed to the Government and PCG according to the respective ownership percentage. The ownership percentage should be calculated as discussed above.
  - The following flowchart summarizes the cashflow distribution to and from the shareholders:



- Design and construction
  - The selected designer and contractor for the Cyberport will enter into a fixed date, fixed price turn-key contract with guaranteed performance.
  - In addition to the primary designer and contractor, an independent engineering firm may be hired to

approve the design of the Cyberport and to monitor the construction process.

- Management

- Managed by the joint venture

- Government will work with PCG in drawing up proposed criteria for selecting the right number and mix of tenants in line with the objectives of the Cyberport.

Again, we would like to emphasise our commitment to the Cyberport project and we hope the above suggested amendments will provide a common basis for cooperation. We look forward to discussing this amended structure with you.

*Yours sincerely*

K.C.

(K C Kwong)

Secretary for Information Technology  
and Broadcasting

bcc AA/CS

AA/FS

S for Tsy (Attn Mr Martin Glass)

# CASH FLOW ANALYSIS FOR THE CYBERPORT PROJECTS

	0	1	2	3	4	6	7	8	9	10	11	12	13	25	26	27	28	29	30	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	
<b>Cashflow to CDMC</b>																				
Sub-proceeds from residential				156	2,766	3,457	3,457	3,459	3,317	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	2018
Cyberport rental revenue				15	65	177	204	204	204	204	205	205	205	205	205	205	205	205	205	205
Total revenue				171	2,831	3,634	3,661	3,663	3,521	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	2018
EBITDA				171	2,831	3,634	3,661	3,663	3,521	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	2018
Residential Land Premium	5,500			171	2,831	3,634	3,661	3,663	3,521	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	2018
Cyberport Land Premium	1,550									900	205	205	205	205	205	205	205	205	205	205
Residential CAPEX	81	315	679	1,092	1,516	1,512	1,403	953	484											
Cyberport CAPEX	77	400	976	1,762	1,704															
Infrastructure Costs	548									20										
Cash flow before financing after CAPEX	(7,758)	(715)	(1,653)	(2,683)	(1,89)	2,122	2,258	2,710	3,037	880	205	205	205	205	205	205	205	205	205	205
Financing Costs	(14)	(77)	(228)	(282)	(282)	(122)														
Cashflow after financing	(7,772)	(792)	(1,881)	(2,965)	(671)	2,000	2,258	2,710	3,037	880	205	205	205	205	205	205	205	205	205	205
Debt addition	174	792	1,881	676																
Debt Repayment						(2,000)	(1,525)													
Cashflow to Distributable to Shareholders	(7,598)			(2,289)	(671)		733	2,710	3,037	880	205	205	205	205	205	205	205	205	205	205
Equilibrated Cash at end of JV																				
Total CF Available	(7,598)			(2,289)	(671)		733	2,710	3,037	880	205	205	205	205	205	205	205	205	205	205
Equity Injection				2,289	671															
Total Cashflow Available to Shareholders	(7,598)						733	2,710	3,037	880	205	205	205	205	205	205	205	205	205	205

## Cashflow to Shareholders

	1	2	3	4	5	6	7	8	9	10	11	12	13	25	26	27	28	29	30	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	
<b>Government</b>																				
CF sharing from Cyberport JV																				
Infrastructure Costs	(548)						527	1,950	2,186	633	148	148	148	148	148	148	148	148	148	148
Residential Land Premium	(5,500)																			
Cyberport Land Premium	(1,550)																			
Equity Injection																				
Total CF	(7,598)																			
Cumulative CF	(7,598)	(7,598)	(7,598)	(7,598)	(7,598)	(7,598)	(7,071)	(5,120)	(2,935)	(2,301)	(2,154)	(2,006)	(1,858)	(1,710)	(1,562)	(1,414)	(1,266)	(1,118)	(970)	(822)

## ESG

	1	2	3	4	5	6	7	8	9	10	11	12	13	25	26	27	28	29	30	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011	2014	2015	2016	2017	2018	
CF sharing from Cyberport JV																				
Equity Injection				(2,289)	(671)		206	760	851	247	58	58	58	58	58	58	58	58	58	58
Total CF				(2,289)	(671)		206	760	851	247	58	58	58	58	58	58	58	58	58	58
Cumulative CF				(2,289)	(2,960)	(2,960)	(2,754)	(1,994)	(1,143)	(897)	(839)	(782)	(724)	(666)	(608)	(550)	(492)	(434)	(376)	(318)



