

Brief Notes of Meeting with PCG on 12.2.99

Government

SITB, DS(ITB)DS, DS(Tsy)2, PAS(Tsy)I

PCG

Alex Arena, Peter To, Augustine Chui, Mark Ambler, Nicholas Chan

SITB made the following opening remarks :

- (a) Good progress was made on planning, works and other related aspects. Both sides had put in a lot of resources to achieve encouraging progress.
- (b) Government had studied the revised proposal by PCG carefully. However, the proposed structure, in particular, their suggestion to account for Government's contribution via land premium by way of preference shares was not acceptable and would not stand up to public scrutiny.
- (c) In drawing up our response, Government had adopted some of the main assumptions PCG provided in their revised proposal.

2. SITB then went on to go through Government's response set out in the letter to Mr Richard Li of 11.2.99. PCG questions and Government's response are provided below:

<u>Issue</u>	<u>PCG's questions</u>	<u>Government's response</u>
a. Land premium	Whether Government was rejecting the idea that the land for the Cyberport development should be provided at nil premium.	Cyberport land also attracted a certain value. This should be reflected in Government's equity contribution.
	Breakdown of the \$7.05 billion estimate for the combined site.	About \$5.5 billion for the residential site and \$1.5 billion for the Cyberport site, subject to further assessment.

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<u>Issue</u>	<u>PCG's questions</u>	<u>Government's response</u>
	The cost of \$548 million for infrastructure works would normally be borne by Government to service formed land.	This represented part of Government's contribution towards the project.
b. Government's equity stake	Would the timing for divestment of Government's shares be subject to restrictions, e.g., after the construction period ?	Government might sell its part of the shares at the beginning of the project. However, recognising PCG's concern that there should only be one project manager, the shares would be subject to the same conditions as agreed between Government and PCG.
	Would Government consider accepting an reciprocal clause for PCG ?	Prepared to consider such a clause provided PCG fulfilled its role as the single designer and project manager as well as anchor tenant.
c. Equity structure	How would the equity structure be adjusted ?	A mechanism needed to be agreed. Government's contribution to be valued at the time of injection. PCG's contribution would need to be based on an estimate, to be reconciled with actual injection.
d. Financing alternatives for the JV	Would Government be prepared to guarantee JV loans ?	Government has already contributed the land, with both PTGs available for collateral. Will not provide additional guarantees.

3. Government also raised with PCG the following issues :

<u>Issue</u>	<u>Government's concerns/questions</u>	<u>PCG's response</u>
a. Insolvency	Government will require some form of agreement regarding how the liability should be dealt with in case the JV becoming insolvent before the completion of the project. The Government could not accept a situation where it bore most of the risk as the banks would first call on the land, which would	To consider the issue and provide a response.

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be Government's contribution.

b.PCG as the developer We need to conduct "due diligence" process on PCG. PCG should submit audited accounts for the last five years for Government's consideration. Noted Government's request.

c.PCG to provide a comprehensive proposal outlining the financial, design/technical and management aspects. We will need a comprehensive description of the final product as an attachment to an MOU or heads of agreement document. PCG should start work in this respect. This required resources. But noted Government's request.

Information Technology and Broadcasting Bureau

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