

Response to questions raised on 30 May 2008

**1. The Specialist Advisor has expressed the view that it is possible for the WKCD project to achieve financial sustainability with the upfront endowment of \$21.6 billion, subject to certain amendments to current plans or certain conditions. Please elaborate on the proposed amendments/conditions.**

The Specialist Advisor stated in its Final Report that:

- (a) *“The WKCD project may not be financially sustainable after 50 years.”... “An extra saving on capital and operating costs, equivalent to 16% of the \$21.6 seed fund, is needed.”* (point 6 of the Executive summary);
- (b) *“Should M+ be run by an international operator, the potential saving, in very crude terms, could be as high as 22% of the \$21.6 billion seed fund”* (point 8 of the Executive summary);
- (c) *“Compared to conventional on-costs and management fees, there is a potential saving, which could be as high as 14% of the seed fund”* (section 11.5 of the Conclusions and recommendations on page 47)

These superficial figures are not meant to be precise. Yet they show a direction in which it might be possible to amend the current plans with a view to cover the savings needed for long term financial sustainability. Notwithstanding further investigations into other areas described in the next paragraph, changing the operation mode of M+, and a reduction of on-costs, are just two possibilities which require detailed studies. Whether these amendments and conditions are preferred, because of reasons other than finance, is yet another matter.

There are other areas, which are also essential to the financial strength of the WKCD project, and therefore require further detailed studies. They include the design and build procurement method; the early involvement of CACF operators; construction cost escalations; volatility in investment returns; the optimal size of M+; the business plan of RDE and therefore the desirable mix of commercial facilities; and a complete revision of the private sector participation study based on realistic assumptions and proven successful examples of public-private partnerships.

**2. In choosing overseas examples for comparison for M + and the WKCD Authority, is the Specialist Advisor actually comparing like with like? Please elaborate.**

No. We are not, because that was not the objective of these comparisons.

*“To arrive at a better estimation of figures, comparisons to the available data are inevitable. There is yet another objective in comparative studies, which is to highlight the differences in the financial performances of very different management and operation strategies. This latter method is used when a distinctive alternative strategy is available (e.g. building up a collection of artwork, or entering into a franchise agreement).*

*Both of these two methodologies will be used in this report, with a view to investigating the potential methods for improving the financial performance of the WKCD. “*  
(Section 2.3 on Methodologies, page 7)

We must add that these overseas comparisons were NOT chosen by us, but by the Financial Advisor in its Final Report. We just highlighted their differences, in order to investigate the possibilities of improving WKCD’s financial performance.

Versitech Limited, 5 June 2008.