

PACIFIC CENTURY GROUP

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Delivery by hand

RICHARD LI
CHAIRMAN AND CHIEF EXECUTIVE

February 15, 1999

Mr. K.C. Kwong
Secretary for Information
Technology and Broadcasting
Government of the Hong Kong
Special Administrative Region
2/F., Murray Building
Hong Kong

Dear Mr. Kwong,

Cyber-Port

I have now had a chance to read your letter dated 11 February and my senior executives have briefed me on the meeting you had with them on 12 February. I have considered the Government's proposal carefully.

At the outset I must say two things. First, I have been very appreciative of the effort the Administration has expended, particularly over recent weeks, on progressing the various technical issues in this complex project. Second, I am conscious that your letter represents the first substantive proposal from the Government since I raised the idea of this project in the middle of last year. Indeed, I feel that PCG has not only initiated the Cyber-Port concept but we have done all the work in turning the vision into a realisable project that Hong Kong would be proud to have and which would bring enormous tangible and intangible benefits to our struggling economy. I also believe it would help to achieve the Government's objectives of returning to prosperity from adversity and assist in the re-making of Hong Kong.

When we initially brought the project to Government we proposed that the Government ought to undertake the project in the same way as other countries trying to encourage IT developments in their economies. For a variety of reasons, and despite the Government's own advisors supporting the project, the Government felt unable to advance the project. In December 1998, we proposed a mechanism whereby the private sector could undertake the project and deliver it to the Government merely requiring modest public funds for infrastructural works. This proposal we modified in January in response to certain suggestions from you that the Government would prefer a joint venture approach - this effectively represented our third attempt to make the project come into being.

I advised you on 27 January 1999 when I forwarded this third proposal that it had been difficult to balance the many different dimensions and that while we continued to maintain our commitment to develop the Cyber-Port for the Government we could not ignore the real risks involved and that PCG would need to assure itself that it would not put itself in jeopardy in agreeing a way forward with Government. Using this same criterion I am disappointed that the Government's proposal as contained in your letter of 11 February is simply not a starter from PCG's need to safeguard against the possible substantial risks it has to face.

Let me elaborate. The Government's proposal envisages that the Government charges a high land premium and associated infrastructure as equity with no further equity contributions by way of cash and no financial guarantees. PCG is expected to contribute equity in cash and all its other contributions, including, the original concept, the design, project management, financing and marketing of the Cyber-Port, are valued at zero. The Government would bear no risk. In contrast PCG is expected to bear all the risk, including the financial, construction and market risks, and is even required to contribute additional equity in cash to make good any deficit in the project. In the end, the Government would reap the substantial intangibles, including the economic stimulus; the new enterprises bought to Hong Kong and the economic progress a viable information services would bring to our economy. This will be achieved as a result of PCG's enormous efforts to accomplish a highly complicated project confronting many site problems within a tight time schedule, and yet no commensurate material award is apportioned to PCG.

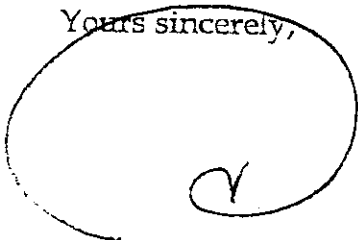
Moreover, Government proposes to charge a substantial premium even on the Cyber Port part of the site, plus costs for infrastructural works. This would inflate the rental levels of the Cyber Port, thus defeating the purpose of the project designated by policy to attract target tenants which would bring high-value-added stimulus to Hong Kong's economy.

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I do not share the Government's apparent assessment of the real risks. You appear to be making the underlying assumption that Hong Kong's property market will return to its past heady level. We could not accept this assumption. In our view, the asset bubble may have been punctured irreversibly in Hong Kong just as it has in other cities in the world historically. My assessment comes from running a technology-based company with a global perspectives that has both properties development and technology-based interests.

In conclusion, I remain resolute in my belief in the Cyber-Port but I cannot participate on the terms you propose. So far, I have done my utmost in giving the Government the Cyber-Port initiative and PCG has spent a lot of time and money in response to the CE's initiative and vision. The project we proposed to you in January 1999 is in my belief workable. The only realistic way of making the JV option viable is to give equitable consideration to the substantial risks confronted by PCG, adhering firmly to the principle that the overriding objective of the Project is the substantial gains in human resources, for enhancing Hong Kong competitiveness, expanding a more diversified economic base, thus expediting its economic recovery and not the short term revenue from the realty development consideration.

Yours sincerely,

A large, hand-drawn oval containing a stylized signature that appears to be 'R' or 'Li'.

RICHARD LI

Cc: Eva Cheng (via fax: 2827-2424)