HONG KONG CYBER-PORT

A PROPOSED WAY FORWARD

9 December 1998

PCG's submission September 2, 1998

- Is still relevant
- PCG still stands by it
- The Cyber-Port is essential for Hong Kong's future
  - and any role Hong Kong will play in IT and Information Services

PCG understands that Government is attracted to the Cyber-Port proposal

- However, Government has difficulties with:
  - funding
  - cost-recovery precedents

PCG is concerned the Cyber-Port proposal will die

- Or face compromise that will jeopardise the Cyber-Port's objectives

PCG wishes to be constructive

- We are sympathetic to Government's difficulties
- We recognise that Hong Kong needs the Cyber-Port to meet its IT related policy objectives
- Hence, we have tried to devise a solution...

Solutions necessitate a greater role for the private sector

- This is the direction PCG has explored

Parameters of a Solution

- From Government's perspective:
  - Government could contribute the land (without premium)
  - Government could undertake certain infrastructure works e.g. access roads, etc.
  - the private sector should fund the Cyber-Port development
  - Government ought to have a management role in the Cyber-Port

Parameters of a Solution

- From the Private Sector's perspective:
  - the Cyber-Port vision cannot be compromised
  - the Cyber-Port must be constructed to the right standards
  - private sector funding requires some collateral
  - private sector development necessitates freedom to project-manage and construct the Cyber-Port

PCG believes it can offer a solution

- Within the above parameters
- PCG is willing to undertake the Cyber-Port project under the following scheme

The First Step

- The Government would assign the entire Cyber-Port site to a 100% Government owned company (say, the Cyber-Port Land Company)
- The land would never leave Government ownership under this entire scheme

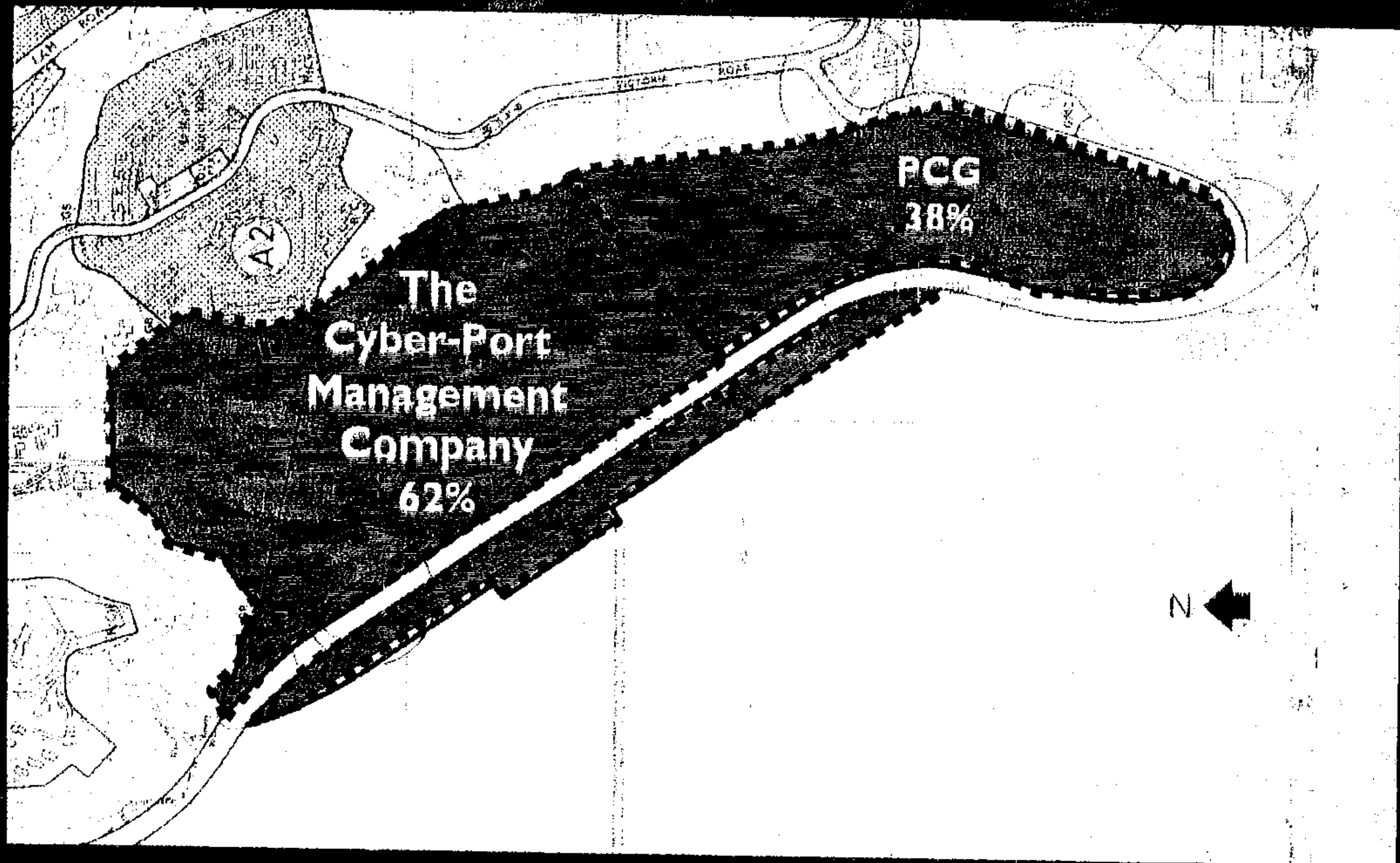
The Second Step

- The Cyber-Port Land Company issues a 50 year Right-to-Use to:
  - A Cyber-Port Management Company

    for 62% of the site; and
  - PCG

    for 38% of the site

The Second Step (cont.)



The Second Step (cont.)

- The 62% : 38% split is predicated on town-planning considerations
- If a suitable plot-ratio is granted to PCG's site, PCG would be prepared to negotiate a smaller portion than 38%

The Second Step (cont.)

- Right-to-Use would be subject to conditions regarding set performance objectives
- Hence, the Government could resume the land in case of breach
- The Right-to-Use mechanism is based on MTRC precedents and is the key to finding an acceptable way for private sector funding to be injected into the project.

The Third Step

- In return for the Right-to-Use granted to it, PCG would:
  - raise private finance for the entire project
  - construct the Cyber-Port on the portion of the site assigned to the Cyber-Port Management Company
  - develop the remainder of the site (i.e. the 38% allocated to PCG) for private sale to raise funds to retire the debt

The Fourth Step

- Upon construction of the Cyber-Port, PCG would pass it to the Cyber-Port Management Company for:
  - marketing of the Cyber-Port
  - leasing to Information Services tenants
  - management of the Cyber-Port

PCG has previously offered to effectively underwrite the Cyber-Port by committing to be a pioneer and a quality anchor tenant

- PCG has also expressed confidence that the Cyber-Port would be attractive to other Information Services companies

PCG has first-hand experience in marketing and leasing quality property developments to IT and Information Services related firms

- PCG's Beijing office development (to be completed in 1st Quarter '99) is already 70% committed, having attracted the China Headquarters of quality tenants:

  - IBM - Boeing - Alcatel - Intel (to be formally signed)

PCG believes it could play a similar role in ensuring the success of the Cyber-Port by virtue of its marketing skills and its contacts in the IT and Information Services sector

- As an essential component of the private sector funding and development scheme outlined above, PCG would seek to share both the risks and rewards of the continuing management of the Cyber-Port.

Consequently, PCG would seek a minority equity position in the Cyber-Port Management Company

- This would still leave the Government firmly in control of the Cyber-Port
- but it would also greatly improve the chances of the Cyber-Port's immediate success by ensuring greater occupancy of the Cyber-Port

PCG strongly believes that the Cyber-Port requires sound management personnel

- PCG would seek reassurance on this score
- PCG would require:
  - Right of veto on the appointment of Chairman of the Cyber-Port Management Company
  - Right to appoint (subject to Government veto) the CEO and Marketing/Commercial Manager of the Cyber-Port Management Company

Summary

- PCG is prepared to fund and construct the Cyber-Port and participate in its management
- PCG would guarantee a quality project, best suited to meeting the Cyber-Port's objectives

Summary (cont.)

- PCG's proposal would minimize the risks for Government
- Government would continue to own the land
- PCG would bear the financial, commercial and construction risks
- PCG's proposal would accelerate the project administratively and through harnessing private sector resources
  - advancing the project by 9-12 months would create jobs and provide an economic stimulus to Hong Kong

Summary (cont.)

- Government would gain:
  - The Cyber-Port and all its attendant facilities
  - All the benefits the Cyber-Port would bring to the Hong Kong economy
  - A major boost to the attainment of its policy objectives
  - Despite not investing in the Cyber-Port, a continuing return via its equity stake in the Cyber-Port Management Company

PCG trusts the Government can accept PCG's proposal so that we can quickly deliver this much needed project to Hong Kong