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September 26, 2000

OUTPERFORM

Stock Price:	**S$17.30**
Sector:	**Technology**
Straits Times Index (STI):	**1,989**

Pacific Century Regional Developments (PCRD) *(PAC Sp)*

Scenarios that will unlock PCRD's fair value

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STOCK INFORMATION

Shares Issued (m) @ S$1.0 par	307.7
Market Capitalisation	S$5,323m / US$3,047m
Estimated Free Float	S$1,288m (24.2%)
NAV per share	S$49.83
Major shareholders after IPO	Pacific Century Group (75.8%)

PCCW VS PCRD

Value to PCRD *(S$)* **per share**		**As a % of total**
PCCW	$46.83*	94.0%
PCI	$0.51*	1.0%
Properties	$2.50	5.0%
Total	**$49.83**	
Discount to PCRD closing share price of S$17.30		**65%**
PCRD "fair value"		
Assume a discount of 25% for holding company:		
Share price of PCRD	$37.37	
Potential Upside	116%	

** Equivalent share price based on Sept 21, 2000 closing of PCCW and PCI of HK$9.05 and HK$2.3 respectively.*
Source: GKG estimates

SHARE PRICE EQUIVALENT TO PCRD BASED ON PCCW SHARE PRICE

Based on Sept. 21, 2000 closing prices

S$	**Share Price of PCCW** *(HK$)*						
Discount rate applied to PCRD vs. PCCW	**$5.00**	**$7.50**	**$9.00**	**$9.05**	**$10.00**	**$12.50**	**$15.00**
0%	25.87	38.81	46.57	46.83	51.74	64.68	77.62
15%	21.99	32.99	39.58	39.80	43.98	54.98	65.97
20%	20.70	31.05	37.26	37.46	41.40	51.74	62.09
25%	19.40	29.11	34.93	**35.12**	38.81	48.51	58.21
30%	18.11	27.17	32.60	32.78	36.22	45.28	54.33
35%	16.82	25.23	30.27	30.44	33.63	42.04	50.45
50%	12.94	19.40	23.28	23.41	25.87	32.34	38.81

For the Full Matrix, please refer to Page 3.

Access the interactive version of our PCRD-PCCW valuation matrix at www.gohdirect.com.sg

SHARE PRICE PERFORMANCE

Period	**1 Month**	**3 Months**	**12 Months**
Share Price (S)	-28%	-11%	+79%
Relative to SNGPORI	-19%	-10%	+86%

- **Scenario analysis points to one conclusion – recognition of value**. Through a number of various options and plans, we have outlined various strategies to recognise the value of PCRD. The conclusion is clear; no matter the choice, the value of PCRD should equate closer to its "fair" value. Such an adjustment will reward investors substantially.
- **Trading at a 65% discount to its fair value**. PCRD trades at a substantial discount to the fair value of its assets. Based on a sum-of-parts valuation, we believe the stock has significant upside. Even assuming a holding company discount of 25%, we believe the stock's fair value is S$37.4, or more than 2.1x its current share price.
- **Future acquisitions to drive share price**. We expect PCRD to pursue a strategy independent of PCCW. However, it is likely to seek acquisitions that will bring synergies to the group. The initial catalyst for any share-price readjustment will be acquisitions contiguous to PCCW's Internet/telecom assets. These acquisitions are likely to include properties, financial services and other related businesses. PCRD will be able to fund such acquisitions easily because it is essentially debt free, following AIG's purchase of US$200m worth of convertible bonds from the company.
- **Possible group restructuring likely to benefit PCRD**. A restructuring of the group is extremely likely, given the need to consolidate ownership of assets, including PCCW. PCRD is likely to emerge the big winner, solidifying its position on top of the Pacific Century organisation.
- **New management team to focus separately on PCRD listing**. A core group of individuals will be brought in to run PCRD. We expect that the responsibility of this group of people will be to draw up and implement a strategy focused on PCRD's development, independent of PCCW.
- **Recent placement at PCCW level has affected sentiment**. Cable & Wireless PLC recently transacted its disclosed 4.9% placement of PCCW shares. PCCW's share price has now fallen to attractive levels and further strengthens our outlook for PCRD.

Share Prices as at – *September 21, 2000.*
NB: **Outperform** = *≥ +5% compared with the index over a 12-month period* ; **Underperform** = *≤-5% compared with the index over a 12-month period.*
Electronic PDF versions of our reports are also available on Bloomberg, Trapeze, First Call, Research Direct, Multex and GohDirect.

CONTENTS

In this report, we have used a number of acronyms. In order to avoid confusion, we clarify them as follows:

- PCRD is Singapore-listed Pacific Century Regional Developments.
- PCCW is the newly merged corporation Pacific Century CyberWorks.
- PCI is Hong Kong-listed Pacific Century Insurance.
- PCG is Pacific Century Group Holdings, Richard Li's private and wholly owned subsidiaries.
- PCD is Pacific Century Diversified, another of Richard Li's private and wholly owned subsidiaries.
- HKT was Cable & Wireless HKT, which subsequently merged with PCCW.

INVESTMENT SUMMARY ➤

PCRD comprises three businesses

Pacific Century Regional Development (PCRD), a Singapore-listed investment holding company, has three main assets: 1) Hong Kong-listed PCCW. 2) Hong Kong-listed Pacific Century Insurance (PCI). 3) Various property and infrastructure assets. PCCW is the dominant asset in terms of valuation, accounting for 95% of PCRD's value. This weighting has seen PCRD "track" PCCW's share price. However, PCRD trades at a discount of nearly 62% to just its shareholding in PCCW (see below). We believe this discrepancy will inevitably narrow, as management is poised to create value.

Potential upside of 113%, or 2.1x

Our analysis leads us to believe that, over time, PCRD's discount will narrow to approximately 25%. This, we believe, is a fair discount rate for the holding company. However, even such a discount will represent a potential upside of over 116%, or over 2.1x, to the present share price of PCRD.

This report focuses on the valuation gap between PCRD and PCCW. We have presented a number of arguments and various scenarios to show why we believe the discount to NAV of PCRD is likely to narrow.

Valuation

Sum-of-parts valuation

We have attempted to derive a valuation for the outlook of PCRD by considering a sum-of-the-parts valuation. We have marked to market the share prices of both PCCW and PCI and taken the book value of the property assets. As noted, PCRD is heavily influenced by the share-price movement of Hong Kong-listed PCCW. In our sensitivity analysis, every HK$0.10 movement in the share price of PCCW is equivalent to a S$0.49 change in the share price of PCRD. Consequently, the performance of PCRD's share is, in many ways, directly related to that of PCCW. Based on the closing prices of HK$9.05 for PCCW and HK$2.3 for PCI, the shares of PCRD trade at a discount of approximately 65%.

Shares should trade at 25% discount

We believe the shares should trade at a discount to its value of approximately 25%, or S$37.4. This still leaves investors with 116% upside from the closing price of S$17.3 on Sep 21, 2000.

Table 1. Current Share Price Equivalent to PCRD *(S$)*

Discount rate applied to PCRD vs. PCCW	Share Price of PCCW *(HK$)*																
	$5.0	**$6.0**	**$7.0**	**$8.0**	**$9.0**	**$9.05**	**$10.0**	**$11.0**	**$12.0**	**$13.0**	**$14.0**	**$15.0**	**$16.0**	**$17.0**	**$18.0**	**$19.0**	**$20.0**
0%	25.87	31.05	36.22	41.40	46.57	46.83	51.74	56.92	62.09	67.27	72.44	77.62	82.79	87.96	93.14	98.31	103.49
5%	24.58	29.49	34.41	34.41	44.24	44.49	49.16	54.07	58.99	63.90	68.82	73.74	78.65	83.57	88.48	93.40	98.31
10%	23.28	27.94	32.60	32.60	41.91	42.15	46.57	51.23	55.88	60.54	65.20	69.85	74.51	79.17	83.83	88.48	93.14
15%	21.99	26.39	30.79	30.79	37.26	37.46	41.40	48.38	52.78	57.18	61.58	65.97	70.37	74.77	79.17	83.57	87.96
20%	20.70	24.84	28.98	28.98	34.93	**35.12**	38.81	45.53	49.67	53.81	57.95	62.09	66.23	70.37	74.51	78.65	82.79
25%	19.40	23.28	27.17	27.17	32.60	32.78	36.22	42.69	46.57	50.45	54.33	58.21	62.09	65.97	69.85	73.74	77.62
30%	18.11	21.73	25.35	25.35	32.60	32.78	36.22	39.84	43.46	47.09	50.71	54.33	57.95	61.58	65.20	68.82	72.44
35%	16.82	20.18	23.54	23.54	30.27	30.44	33.63	37.00	40.36	43.72	47.09	50.45	53.81	57.18	60.54	63.90	67.27
40%	15.52	18.63	21.73	21.73	27.94	28.10	31.05	34.15	37.26	40.36	43.46	46.57	49.67	52.78	55.88	58.99	62.09
45%	14.23	17.08	19.92	19.92	25.61	25.76	28.46	31.31	34.15	37.00	39.84	42.69	45.53	48.38	51.23	54.07	56.92
50%	12.94	15.52	18.11	18.11	23.28	23.41	25.87	28.46	31.05	33.63	36.22	38.81	41.40	43.98	46.57	49.16	51.74
55%	11.64	13.97	16.30	16.30	20.96	21.07	23.28	25.61	27.94	30.27	32.60	34.93	37.26	39.58	41.91	44.24	46.57
60%	10.35	12.42	14.49	14.49	18.63	18.73	20.70	22.77	24.84	26.91	28.98	31.05	33.12	35.19	37.26	39.33	41.40
65%	9.06	10.87	12.68	12.68	16.30	16.39	18.11	19.92	21.73	23.54	25.35	27.17	28.98	30.79	32.60	34.41	36.22
70%	7.76	9.31	10.87	10.87	13.97	14.05	15.52	17.08	18.63	20.18	21.73	23.28	24.84	26.39	27.94	29.49	31.05

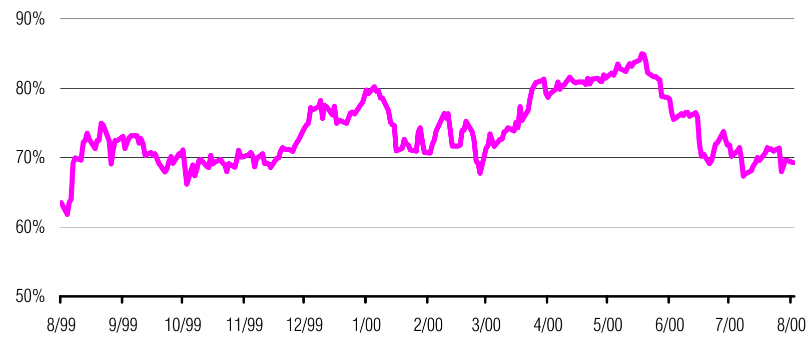
Based on Sep 21, 2000 closing prices
Source: GKG estimates

The Discount

Think in terms of Cheung Kong and Hutchison

The question remains as to how this value will be unlocked. PCRD has been ignored for many reasons – from its inability to create value on its own to the lack of on-hand management in Singapore. Investors have clearly priced in a discount on PCRD due to its status as a holding company and a relatively inactive one at that. We believe that, while some sort of discounting is inevitable, the level is unjustified. We liken PCRD to Hong Kong-listed conglomerate Cheung Kong (Holdings), which trades at an approximate discount of 20% to the market value of its shareholding in subsidiary Hutchison Whampoa.

Chart 1. Historical PCRD to PCCW Discount

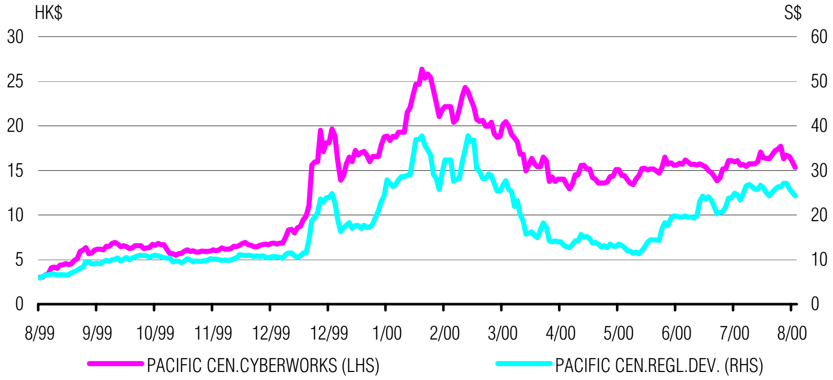


Source: Datastream

Entire deep discount is unwarranted

If we look at the historic discount rate of PCRD, we see that the shares have traded at approximately 60-80% of the value of PCCW. That value today is approximately 63%, nearer its lower end. However, we continue to argue that the entire deep discount is unwarranted and that future corporate activity is likely to result in a significant narrowing of the discount. We believe a fair discount for PCRD is 20-25%.

Chart 2. Share Price of PCCW & PCRD



Source: Datastreams

The Catalyst

Different catalyst will equate share price to fair value

Later in the report, we present a number of different scenarios, which, we believe, the company has contemplated in order to resolve the price discrepancy of PCRD. We believe there are a number of options available and management is carefully weighing the pros and cons of each. Still, the end result is the same – the value of PCRD is more likely to reflect closer to its fair value.

Acquisitions to complement PCCW

In one of our scenarios, we envision PCRD eventually making forays into other business segments. We believe that, in addition to other property assets, financial institutions (such as banks), transportation (such as shipping or port operations) and even other high-technology companies (such as semiconductor, telephone equipment and memory-chip companies), are all viable opportunities. Each one of these business segments will suitably complement PCCW. Both PCRD and PCCW will benefit by leveraging their separate business connections. One missing link in the chain for PCCW is customers. While PCCW can provide the connectivity and the content, PCRD can, perhaps, fill the void by gaining access to customers. A bank, or even a utility, may provide access to a large number of customers. As management irons out its strategy, we believe investors should not discount PCRD's ability to create long-term value for itself.

Sentiment

Despite current market sentiment, outlook still remains positive

Recent developments have turned sentiment on PCCW and PCRD decidedly negative. Cable & Wireless PLC (C&W) recently placed out 4.9% of its 19.1% stake in PCCW (C&W can place an additional 7.1% stake in Feb01 and the remainder in Aug01). The move was expected as it had been disclosed in the offer document for Cable & Wireless HKT in May00. However, the timing of the placement left much to be desired following the recent slide in PCCW's share price. The immediate reaction of investors was to unload the stock, sending the shares plummeting. Still, the removal of the near-term overhang should see PCCW shares strengthen in the coming months. After its results announcement at the end of Sep00, PCCW is expected to unveil a number of significant deals. We believe that the long-term outlook for PCCW remains extremely positive.

CATALYST SCENARIOS

Richard Li's control of PCCW comes from stake in PCRD

The majority of Richard Li's stake in PCCW comes from his ownership and control of PCRD. Put simply, every dollar that Richard Li has invested in PCCW (via PCRD) is worth only 35 cents to him, which means the payback for his work and effort at PCCW is not reflected in his own wealth.

In order to drive PCRD's share price, we believe there are several scenarios that could take place. We believe each one of these scenarios is being or has been considered by management at some time. Management is now struggling with the same dilemmas and issues facing investors – how to affect the share price so that its value is recognised. As stated above, there are various reasons why we believe this is necessary. Although there are several different ways the company can achieve this, we believe the end result will be the same - the shares of PCRD will be revalued closer to their fair value. We examine below some of the more interesting options available to management.

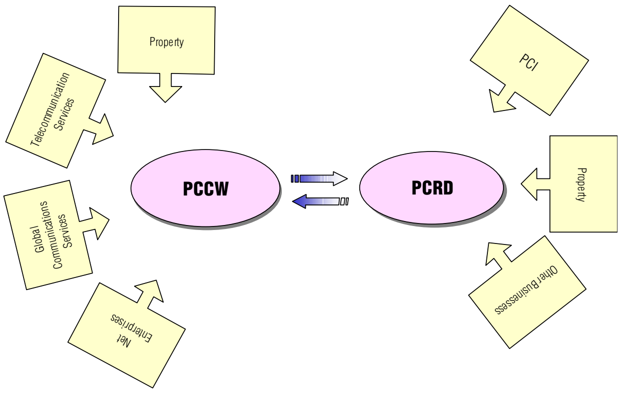
Share Swap/Acquisition

Scenario likely to complicate shareholding structure

One way to get the attention of investors may be to structure a share swap. In a form similar to Singapore-listed Jardine group (Jardine Matheson and Jardine Strategic), PCCW and PCRD will structure a cross-holding ownership scheme that will see both entities owning shares in each other. PCCW may outright buy shares of PCRD (although PCCW is unlikely to utilise its cash in such a manner). This will push PCRD's share price higher, although there is no guarantee that it will move significantly towards its fair value. Also, there is some question as to how this will still allow a minimum amount of freefloat, given that PCG holds nearly 76% of the company. No matter how this is achieved, the point will be to set up a cross-holding structure that will reduce the deep discount of PCRD.

Such a scenario will certainly complicate the shareholding structure and achieve little for both companies. As we said earlier, the ideal structure will be one that looks similar to the Cheung Kong Group's. So, while this scenario is plausible, it has undesirable connotations the company may want to avoid.

Chart 5. Potential Cross-Holding Structure



Source: GKG

Reverse Takeover

Value-added proposition for PCCW

Instead, PCCW may decide to simply take over PCRD completely. This will certainly be a value- added proposition for PCCW, since it will be acquiring something at a substantial discount (although they will, of course, have to pay a premium to its current share price). Upon making a general offer for the shares of PCRD and, subsequently, privatising the company, PCCW can then reverse the company under its umbrella. So, instead of being the parent/holding company, PCRD may be repackaged into another entity altogether. PCCW can then decide on the assets it wants to incorporate into this new subsidiary. Having done so, PCRD can seek a separate listing in either Hong Kong or Singapore.

Reverse takeover looks unlikely with appointment of Peter Allen

Indeed, such an idea may be compelling given PCRD's discount. However, we believe this takes away one of PCRD's primary assets, its own listing. PCRD's listing gives it the flexibility to utilise both equity and debt and to structure various deals, especially those not involved in the telecom/Internet domain. Still, a reverse takeover appears unlikely as this stage in the light of recent corporate actions, such as the assignment of Peter Allen to PCRD.

Privatisation

Going private will take away the most valuable element – equity

Similarly, a privatisation bid (such as a management buyout) for PCRD is conceivable. Upon delisting, the company can either remain as the same privately held holding company or, as above, be repackaged with certain assets and brought back to the market. While such a move will re-value PCRD closer to its fair value, it will also take away one of its most valuable assets – equity. As stated above, we believe a Singapore listing adds value to the group. Given recent corporate signals, we also doubt that this option is likely. Again, the assignment of Peter Allen to PCRD implies that the listing vehicle is ready to strike out on its own.

Further Utilisation of the Listing

PCRD vehicle may be used in other ways

As we stated above, we believe a restructuring of the shareholding is possible. Upon such a readjustment, the PCRD vehicle may be utilised in other ways. In addition to the property projects it may acquire from PCCW, PCRD may look at other directions. As the Pacific Century empire expands, PCRD may make a broad array of acquisitions. While PCCW is most likely to acquire telecom, Internet and content assets around the world, we believe PCRD may acquire businesses involved in financial services (such as banks), properties (possibly including listed property companies) and transportation (such as ports, shipping and cargo, *a la* Hutchison).

In our opinion, the company will initially acquire property assets from PCCW. However, its future business strategy remains open and, as such, we believe this scenario is plausible in the medium to long term. PCRD may emerge as the group's vehicle ex-telecom and Internet acquisitions. This will certainly open up a huge market for the company. However, funding and resource constraints will likely tame expansion plans. Nevertheless, since PCCW took only 12 months to grow into the company it is today, PCRD may expand just as quickly.

Crunch Time

Turning point for PCRD is around the corner

There has been a discount between PCRD and PCCW for some time now. Management is keenly aware of this and has attempted to highlight the issue to the investment public in hope of getting investors to react (the recent 10-for-1 stock split proposal which will be completed by mid-October was designed to capture better retail participation). However, investors have hardly budged. Consequently, PCRD has been forced to consider alternative actions. Now that the PCCW-HKT merger has been completed, PCRD is poised to act. We reckon the turning point for the company is just around the corner.

Closure of gap between deep discount and 'fair' value

We believe each of these scenarios is viable. Still, we think the most logical first step for PCRD will be to acquire properties from PCCW. In addition, we believe PCRD will eventually emerge with its own business plan that an independent management team will undertake. As our last scenario implies, this plan may outline new businesses in different sectors outside of PCCW. The company may have to wrestle with various options and scenarios, but the end result will be the same. No matter the action taken, PCRD will eventually close the gap between its deep discount and its "fair" value.

Shareholding Structure

Confusing shareholding structure

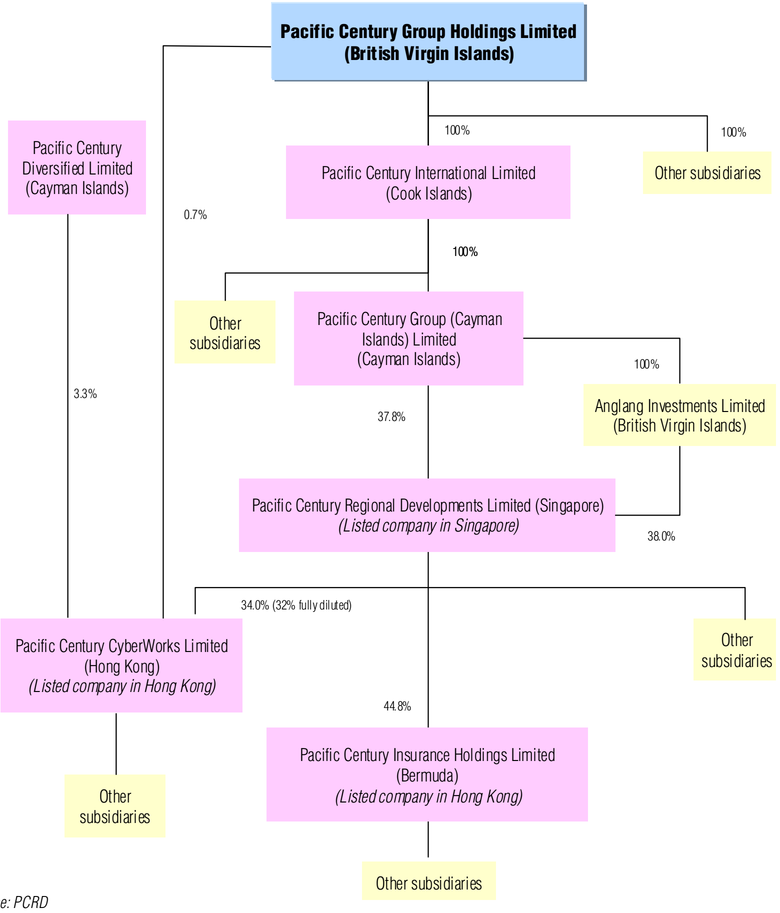
One of the most important, yet confusing, issues regarding PCRD is its complicated ownership structure. The ultimate parent of PCRD is Pacific Century Group, a private company controlled by Richard Li. As outlined below, ownership of various entities, including PCRD, combine to control PCCW. PCRD's role within the current framework is clearly that of a holding company of PCCW and PCI. Later in this report, we explore how a restructuring of this shareholding will strongly benefit PCRD.

Richard Li controls 75.8% of PCRD

One fact of this structure that needs to be highlighted is that Richard Li primarily controls PCCW through his ownership of PCRD. By the same token, Richard Li's personal value, with regards to PCCW, also comes from his ownership of PCRD. We examine this in greater detail later in this report.

PCRD owns 34% of PCCW

Chart 3. Company Structure



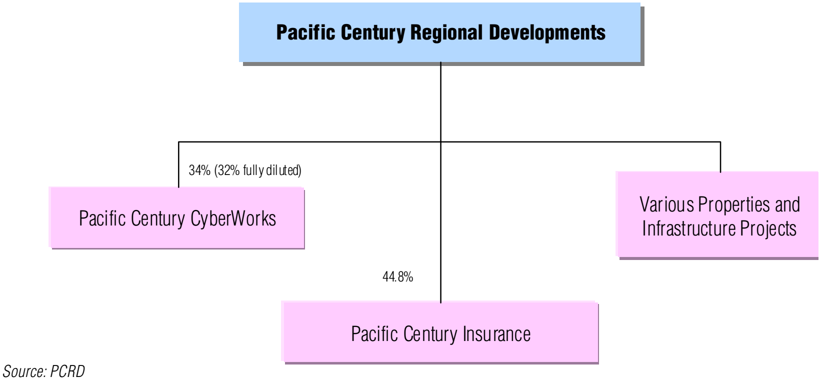
Source: PCRD

Company Structure

PCRD primarily comprises three main business units:

1. 34% (32% fully diluted) or 7.221bn shares of PCCW.
2. 44.8% or 308.63m shares of PCI (increased from 40.8%/281.4 m shares, following recent purchases).
3. Several properties scattered around the region (China, Singapore, India and Vietnam) and an infrastructure project in China.

Chart 4. PCRD Structure



Source: PCRD

Although there are three distinct businesses, PCCW accounts for 95% of PCRD's total value.

Table 2. Value to PCRD by % Value

PCCW	94.0%
PCI	1.0%
Properties	5.0%
Total	**100.0%**

Source: GKG estimate

Company Management

Management

PCRD		**PCCW**
Chairman	Richard Li	Chairman
Deputy Chairman	Francis Yuen	Deputy Chairman
CEO	Peter To	Deputy Chairman
CFO	Peter Allen	Executive Director
COO	Nicholas Colfer	Director
Director	Alexander Arena	Deputy Chairman of Executive Committee

Source: PCRD

Shared management team

PCCW and PCI are Hong Kong-listed companies run by management teams based in the SAR. As outlined above, PCRD shares its management team with PCCW. These seasoned personnel have diverse backgrounds in satellite, telecommunications, property and technology. We later look into the feasibility and likelihood of the appointment of a management team dedicated solely to PCRD .

We profile on the following page some of the more prominent individuals who, we believe, play critical roles in the implementation of the group's overall strategy.

Richard Li Tzar-kai, *Chairman of the Board*

Richard Li, 34, is the driving force behind PCRD. The Pacific Century Group (parent of PCRD, of which Li is Chairman and Chief Executive) was established in Oct93 with proceeds from the sale of Star TV, the satellite and media company he created. Li's experience with Star TV, which he started in 1990, eventually led him to envision the company that became PCCW. He graduated from Stanford University with an engineering degree. A premium is placed on the shares of PCRD and PCCW because of Li. His ability to close deals, draw the necessary talent and raise financing puts him at the forefront of the game. Li has already created substantial shareholder value through his network, vision and actions.

Francis Yuen Tin-fan, *Deputy Chairman*

Francis Yuen Tin-fan joined PCRD after a long career in investment banking in Hong Kong and elsewhere in Asia. Yuen began his banking career with Wardley in 1977. He left in 1985 to establish Citicorp's investment banking unit in Hong Kong. He was promoted to Managing Director of Citicorp Scrimgeour Vickers Hong Kong in Oct86, before being appointed to the firm's board a year later. In 1988, Yuen was made Chief Executive of the Stock Exchange of Hong Kong, which he served until 1991. He is a founding director of Hong Kong Securities Clearing Company. From 1992 to 1994, he served as a member of the International Markets Advisory Board of the NASDAQ. He graduated from the University of Chicago with a B.A. in Economics. Yuen is the incumbent Chairman of the Board of Trustees of the Hong Kong Centre for Economic Research, besides being a member of the Shanghai Peoples' Political Consultative Committee and the Board of Trustees of Fudan University in Shanghai.

Peter To, *Chief Executive Officer*

Another crucial player at PCRD is Peter To. He is at the core of PCCW's Cyberport project and has had 25 years' experience in the property sector. Before joining PCRD, he was Managing Director of the Hutchison Whampoa Property Group, where he was directly responsible for the development, marketing and management of all properties. To holds a Certificate of Housing Management from the University of Hong Kong and is an associate of both the UK Chartered Institute of Housing Management and the Hong Kong Institute of Housing.

Peter Allen, *Executive Director*

Peter Allen joined the Pacific Century Group in 1997. He is also the CFO of PCG. Before joining the group, Allen was with Morgan Grenfell Investment Management in Singapore as its Chief Operating Officer. He has had extensive financial experience, having previously worked as Group Operations Controller for Bousteadco and Regional Financial Director for Vestey, both based in Singapore. He also held various financial positions at Schlumberger, Occidental Petroleum, and KPMG Peat Marwick. He was educated in England and has a degree in Economics from Sussex University. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Public Accountants of Singapore.

Alexander Arena, *Deputy Chairman of Executive Committee (PCCW)*

With a background in government regulatory control, Alexander Arena joined PCG in 1998. Prior to that, Arena was the Director-General of Telecommunications in the Office of the Telecommunications Authority of Hong Kong (OFTA), as well as a member of the Broadcasting Authority. Arena was brought in to help design a programme for the government to liberalise the telecom sector. Before he joined the Hong Kong Government, Arena was an inaugural Member of the Australian Telecommunications Authority (Austel). He has had a long career in public administration, specialising in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policymaker, his experience spans such diverse areas as the commercialisation of government-owned business enterprises and deregulation in the aviation, transport, telecom and postal industries. He holds a Bachelor of Electrical Engineering degree from the University of NSW and a Master of Business Administration degree from Melbourne University.

The Business Strategy Thus Far

PCRD has been passive observer

Richard Li set up PCRD to consolidate his assets in a listing vehicle. Initially, investors were led to believe that PCRD might be the vehicle for the group's future expansion plans. However, since the backdoor listing of PCCW in May99, PCRD has been a passive observer of the massive growth of PCCW. While there have been numerous comparisons on the strengths of both Hutchison and PCCW as conglomerates/dotglomerate giants (see below), the pace of PCCW's progress has taken most people by surprise. PCCW is just over a year old, but, in this short existence, it has assumed control of the SAR's incumbent telecom player, HKT.

No business strategy thus far

If there is one glaring factor that has disappointed investors, it is the lack of leadership at PCRD as nearly all members of its management team also play leading roles at PCCW. As the management is based in Hong Kong and has devoted much of its time and energy developing PCCW, the perception among investors is that PCCW has been nourished at the expense of PCRD. Consequently, PCRD has been seen as nothing more than an inactive holding company for nearly the past year. In fact, it is fair to say that there has yet to be a stated business strategy for PCRD.

Set to change

However, we believe all this is about to change. After considering several scenarios (see Catalyst Scenarios), we believe management is still weighing all options available to it. Nevertheless, the aim of the group is clear – it wants PCRD's share price to reflect its fair value.

The Cheung Kong – Hutch Angle

PCRD's relationship with PCCW is analogous to Cheung Kong's relationship with Hutchison, which are, companies controlled by Richard Li's father, Li Ka-shing. Cheung Kong is the patriarch with a long history and, eventually, spawned Hutchison. Hutchison has, in turn, evolved into a massive conglomerate with its assets nearly twice the size of its parent. PCRD began humbly, but, unlike Cheung Kong, did not have a long gestation period. PCCW emerged soon after and, following aggressive manoeuvres in the dotcom world, quickly eclipsed parent PCRD.

In many ways, Richard Li, who previously held the position of Vice-chairman of Hutchison among others, has modelled his two companies on this structure. In fact, PCCW has gone so far as to say that its management structure is modelled after Hutchison. We believe the PCRD-PCCW relationship will extend even further and probably become synonymous with the Cheung Kong-Hutchison link. The situations are so similar that we have used Cheung Kong as our benchmark to gauge the fair discount for PCRD. So, with Cheung Kong continuing to trade at approximately a 20% discount to its holding in Hutchison, we believe PCRD will approach similar valuations.

Future Developments

We believe there are three critical factors that will ultimately drive the company and, consequently, its share price.

1. Management changes.
2. Group restructuring.
3. Future business focus – acquisitions.

Management changes

It is often said that the most important aspect of any company, particularly a new one in the dotcom sphere, is its personnel/management. If true, then PCRD, with its team of seasoned individuals with diverse backgrounds and experiences, has to be top of the class. However, these same individuals also run PCCW and it is this duality that has hindered PCRD. Compounding the issue is the fact that, although PCRD is a Singapore-based company, all members of its management team reside in Hong Kong.

Formation of separate management team a must

The merger of PCCW and HKT resulted in the appointment of a new management team for the consolidated entity. Consequently, we expect some leading players at PCCW to be transferred to form a new core group dedicated to PCRD. The new management structure announced recently by PCCW indicates that former CFO Peter Allen will be transferred to PCRD to play a larger role there (this was already reported in the Singapore press). In addition, director and chief operating officer of PCCW Properties Nicholas Colfer is likely to take on a more expanded role above his present position of COO at PCRD. We also believe that Alexandar Arena will be a key figure to watch at PCRD. It is likely that additional staff will be recruited dedicated solely to PCRD's development and growth as a standalone company and independent of celebrity offspring PCCW. Indeed, we believe an independent management is critical for PCRD's success.

We believe PCRD will be able to bring in key management figures to play crucial roles. This core group of individuals will be able to act independently from PCCW . In the end, the companies are likely to resemble the Cheung Kong/Hutchison Organization.

Group Restructuring

PCRD likely to become the controlling entity of PCCW

Richard Li controls PCCW through an intricate ownership pattern that involves privately held PCG, PCD and listed PCRD. Much like the hold Cheung Kong has on Hutchison, PCRD may eventually emerge as the controlling entity of PCCW. We note that the entire Cheung Kong group was restructured in early-97. We believe Richard Li's experience at Hutchison will eventually lead him to structure his company along similar lines. Ultimately, a clean line from top to bottom will become apparent. In other words, we believe the intricate ownership structure through various entities, including wholly owned Anglang Investments, PCD and PCG, is likely to be consolidated and reorganised. The ownership structure of PCRD will be consolidated to make it more transparent to investors and potential partners. As a listed vehicle, PCRD is most likely to become the controlling entity of PCCW.

Acquisitions

Acquisition to drive share price

We believe PCRD will initially create a business organisation of its own. In order for PCRD to develop its own business strategy, it is likely to embark on an acquisition phase. Acquisitions are likely to take on many different forms. Initially, further property acquisitions are extremely likely. Specifically, PCRD is likely to acquire property assets that will complement PCCW. Projects such as Cyberport have opened the door to other similar developments around the world. PCCW's experience with the Cyberport project may see PCRD participate in other such developments around the region.

PCRD may also play the role of "developer" (*a la* Cheung Kong) for many of PCCW's properties. For example, a number of HKT-owned properties are ideally suited for redevelopment. In the past, HKT had hinted that it was likely to redevelop these property plots into residential units.

PCCW will require as much cash as it can possibly get due to its business ambitions. Having said that, a divestment of its property portfolio seems extremely prudent. Some of PCCW's properties may eventually be sold off. The financial drain on the company and the human capital required for these undertakings are beyond PCCW. Ideally, PCRD will be a suitable candidate for such assets. However, it will make more sense for PCCW to raise cash outside the entire group, instead of merely transferring cash from parent to subsidiary.

Beyond property, the acquisitions of other "complementary" assets are also extremely likely. As we stated earlier, we see financial services, transportation, high-technology and infrastructure assets as being ideal targets for acquisition.

Funding

Issuance of shares is not really an option

One issue PCRD is likely to be still wrestling with, is its ability to fund acquisitions. If the purchases come from PCCW, then the issuance of shares is not really an option unless the company intends to have cross holdings (see Catalyst Scenario Share Swap). PCRD is essentially debt free following the AIG exchangeable bond issue.

Additional share swaps/ exchanges likely to find funds for acquisitions

Still, the AIG bond issue signifies the company's willingness and ability to pledge its equity holdings in order to obtain funding. We believe similar pledges will be made to fund further acquisitions. PCRD had US$120m in cash on hand as at end-Dec99. Dividend payments through PCCW are likely to be small as it is likely to be fully committed due to its aspirations. In addition, given the recent profit warning by PCI, we are not overly optimistic that it will make a contribution to PCRD's earnings.

In order for PCRD to monetise the value of its shareholding in PCCW, it is likely to structure either more convertible issues as it did with AIG or pledge shares of PCCW as collateral to banks in return for loans. We believe PCRD is looking into both options. PCRD will need to act cautiously, as investors may view any share swap/exchange as a potential vote of no confidence in PCCW. At the same time, if the company wants to acquire assets, it will need to structure financing large enough to be meaningful. Investors have already been rattled by the recent downturn of sentiment and events at the PCCW level. PCRD will need to weigh these two competing forces carefully.

At the initial stage, banks will be the best sources of funds as they are more likely to offer loans for PCRD to acquire property projects given its ability to generate a stable stream of revenue and earnings. We believe initial funding for property acquisitions is unlikely to be an issue. However, funding will be a concern as the company develops a long-term strategy. The need for substantial funds to fulfill its aspirations may require PCRD to find a balance that will support its own plans and nurture PCCW's ambitions.

Catch-22 Situation

Weakness in share price may hamper acquisition plans

As we believe PCRD will have its own business strategy, it is likely to make a number of asset acquisitions. However, to complete such purchases, PCRD will need to tap both the debt and equity markets. With PCRD's share price so undervalued, it will currently find it difficult to fully utilise its equity listing.

We believe a restructuring or any number of acquisitions will be one of the initial catalysts for a readjustment in PCRD's share price. In order for PCRD to acquire the assets from PCCW, its share price must reach a "fairer" level as mentioned above. Therein lies the dilemma. For its share price to move up, it must make acquisitions, but, in order to make these acquisitions, it needs a higher equity price. One bright spot is PCRD's recent convertible bond sale to AIG for US$200m as it has given the company some leeway to pursue other businesses.

Pulling It All Together

To realise its true potential, PCRD will need to recognise the value of synergies between its existing vehicles. The danger going forward is that the resources and activities of PCCW will dwarf those of PCRD. It is for this reason that we see the need for a separate management team at PCRD. As indicated above, we believe such steps have already been taken.

Synergies between property portfolio and insurance unit

Still, we question if there can be a marriage of the financial services, such as insurance, with the convergent media business of PCCW. Perhaps not, but there are certainly some synergies between a growing property portfolio and an insurance operation. New investments in the Internet and telecom sectors, for example, are likely to be carried out by PCCW instead of PCRD. So what does PCRD offer? We believe PCRD is a suitable alternative investment on its own because, while it gives investors exposure to the "new economy" through PCCW, it also combines other assets, including property and insurance, that will develop steadily.

Chart 6. Http://www.cyberworks.com

http://www.cyberworks.com/

The Pacific Century begins now. Creating the world's largest broadband Internet business.

Pacific Century CyberWorks [SEHK: 0008], formed on 17 August 2000 by the merger of Pacific Century CyberWorks and Cable & Wireless HKT, is a leader in the global satellite, telephony and Internet service industries. We have a total of 15,000 employees in 25 offices in 18 countries worldwide. Our pioneering communications solutions include the world's first interactive television service and the world's first true converged Internet and digital video content service, with a potential reach of over 135 million cable-connected households across the Asia-Pacific region.

Defining Convergent Media

Business nature will put PCCW at summit of Convergent Media

PCCW is a new company, which emerged from the merger of PCCW and HKT, covering both the Internet and the telecom markets. The cash flow and expertise behind PCCW have both served to drive its ambitions. The consolidation of the two, which marries technology, telecom, Internet and media operations, into one dotcom giant promises to make PCCW the premier entity of the future. Its unique business nature will see the company become a leading player in, what we call, the *Convergent Media*.

Table 3. Ownership Structure of PCCW

Shareholders	**Fully Diluted***
PCRD	32.00%
PCG	3.95%
Intel	4.79%
CMGI	2.9%
Yasumitsu Shigeta, of Hikari Tsushin	1.77%
C&W FE	14.20%
Public	40.39%

Source: PCRD

** As of Sept 21, 2000, these numbers do not take into account proposed transactions, such as Hicks Muse and Telstra.*

Current Businesses

8 x 3 business structure

PCCW has been broken into three main components, which have been further segmented into eight businesses. In order to understand the company better, we briefly touch on each component. We will explore the more specific details of each business in a follow-up report.

Table 4. Ownership Structure of PCCW

Net Enterprises	**Global Com Services**	**Telecom Services**
Broadband B2C	Connectivity (IP Backbone)	Fixed Network Services
B2B	Mobile	
Data Centres and Web Hosting		
Cyberworks Ventures		
	Infrastructure Services Cyberport and other properties	

1) Broadband B2C

This includes:

- The NOW broadband network.
- Pacific Convergence Corporation (PCC).
- ISP business (both broadband and narrowband).

Creating content is a priority

This operation remains one of the critical elements of PCCW's business strategy. We believe PCCW will need to drive both access and connectivity if it is to succeed in the converging world. As with the marriage of the two areas (media and connectivity) at AOL and Time/Warner, PCCW will provide customers with the means to connect and the programs to connect to. We believe that, in order to attract customers and, ultimately, make profits, PCCW will have to create desirable content. This, in turn, will drive its other businesses. The adage that "content is king" is still true. However, the Internet world has created substantial content, most of it neither highly valued nor desirable. Portals/vortals abound on the Internet, offering everything from healthcare information to pet food. With dotcoms today facing highly competitive markets, many are under pressure to scale back and consolidate or face becoming obsolete.

Bold initiative to design and build content for broadband

PCCW will need to create content that is both applicable to its target audience and scalable to a vast market. Even today, we switch on the Internet (and the TV) because we seek certain information/programmes. As TV shows come and go, so too will Internet content. PCCW's challenge is to create desirable programmes for its audience. Its partnership with TWI for sports content is a positive start. It has also started developing content, now being put together at its own studios in London and, eventually, in studios located around the world. However, as PCCW will need to build up this content, we believe further acquisitions and partnerships are likely.

Bold initiative to design, build content for broadband channel

As much of today's Internet is designed for narrowband, offerings such as news, information, e-commerce, and entertainment are structured around this platform. PCCW's bold initiative is to design and build content for a broadband channel. Whether or not it succeeds will be determined by a number of factors – audience, technology, etc. However, we believe pioneering efforts and first-mover advantages will see it become a dominant force in the years to come.

To succeed in "delivering" its content, PCCW will need to focus on connecting people. It already has had a head start in Hong Kong with its acquisition of HKT and its IMS division. As it expands around the region and the world, it will continue to seek acquisitions and partners able to help it reach critical mass. It has targeted China, Japan and India as its next big markets and has formed partnerships with local access providers, primarily cable companies, which are capable of delivering broadband access.

2) B2B business

Includes:

- Business e-solutions.
- Online Security.
- ASP services.
- E-marketplace.

Existing HKT business broadens company's offering

One significant synergy to be derived from the merger will be the incorporation of HKT's businesses in PCCW. The bundling of these services with PCCW's expertise will create a more complete and comprehensive operation. This is particularly true in the B2B area as HKT already has a number of solutions for its customers. PCCW will look to combine invested companies in CyberWorks Ventures (CWV) with the expertise of HKT to unveil a number of different business solutions for its many corporate customers. While this business remains a small part of the overall company, it is an integral offering because it gives PCCW the status of a complete telecom and Internet provider. The bundling of infrastructure (read bandwidth) and technical knowhow will give PCCW the edge in these areas.

3) Data Centre and Web Hosting

- Combining HKT and iLink.net services.

Combines two leaders to create one dominant player...

HKT's existing Data Centre business is one of Hong Kong's most established. With access to HKT's infrastructure, PCCW has been able to offer one of the premier data centres in Hong Kong. In addition, the business group will likely merge iLink.net, a CWV company, into its operations. The combined entity will occupy about 300,000 sq ft of floor space in Hong Kong. The two businesses previously competed head to head, despite targeting different customers. HKT's services were geared towards large businesses, while iLink.net looked to customers requiring more "hand holding". However, as the two businesses work together, there will be significant synergies and crossovers to strengthen the combined entity's market position.

...but competition and pricing push may erode future earnings

We believe the combined entity will gain substantial market share and have significant first-mover advantage. While the new company will control a large share of the data centre business in Hong Kong, it will increasingly face competition from several new entrants. Sun Hung Kai's Sunevision and Henderson Land's Henderson Cyber, for example, in addition to several international players, such as Digital Island, are expected to compete head to head. This, we believe, will soon lead to a price war. The same can be said for the joint company's web-hosting abilities now that many other options are available. While we see the data centre and web-hosting operation as solid businesses, we are concerned that competition and pricing pressures may erode future prospects.

4) IP Backbone

- PCCW has indicated that this 50:50 joint venture, established with Australia's Telstra, will be spun off in the next 18 months.

One of two important operations to drive PCCW forward

Management has identified the IP backbone business as one of the two most important operations that will drive PCCW forward. (The other is its Net Enterprise business.) PCCW will, together with Telstra, hope to create a backbone for global data, Internet, and telecom flow. The joint venture already has 24 points of presence (POP) around the world. Once it completes encircling the globe, the company plans an IPO spin-off, possibly in the next 18 months.

Likely to fare well, despite keen competition

The primary competitors today in the global arena include two aggressive NASDAQ-listed companies, Global Crossing (in which Hutchison has a stake) and Level 3. Given the valuations of approximately US$29bn for Global Crossing and US$20bn for Level 3, PCCW is extremely confident that it can attain similar valuntions (if not more). This will certainly unlock substantial value in PCCW's shares. Still, it should be noted that both Global Crossing and Level 3 are formidable and extremely competent competitors. Both companies, for example, have already "landed" in Hong Kong, where they have significant capacities. Despite the competition, we expect PCCW to thrive as the global demand for "fat pipes" continues to grow at an amazing pace.

5) Regional Mobile

- The company has indicated that this 60:40 joint venture, also with Telstra, will probably be spun off in the next 18 months.

PCCW will continue to expand network in the region

We expect the possible spin-off to draw substantial interest in the mobile business of PCCW. The venture with Telstra will further strengthen this operation. This business is extremely important to PCCW because, we believe, the mobile phone will be the dominant delivery channel for content around the region, including Internet functions. In a part of the world where the proliferation of the mobile phone has surpassed the penetration of the personal computer (and, hence, Internet connectivity), the mobile network will be a dominant delivery conduit for content. The future of third generation (3G) and, to a lesser extent 2.5G, mobile communications will further drive the delivery of content via this medium. The continued proliferation of WAP and XML means ownership of the next delivery channel is critical for PCCW. As such, the company will continue to expand its network in the region. We expect the mobile unit to announce additional acquisitions/partners for this joint venture. All this will, of course, lead to a spin-off that will allow this business to raise

On 3G:

PCCW has indicated that it will not seek a 3G licence in Hong Kong if valuations reach European levels, as seen in the auctions in Britain and Germany during the recent bidding process. Hong Kong has yet to determine the way it will award 3G licences and bandwidth. While we agree that valuations have been steep in Europe, we believe PCCW's grandstanding is to ensure that the Hong Kong Government considers ALL possibilities (including the "beauty parade" proposition) before deciding on the allocation methodology. Nevertheless, we believe the company cannot ignore a 3G strategy going forward. While prudence and careful management is necessary, PCCW will need to remain aggressive if it is to succeed as the leading convergent media player.

funds on its own to finance future growth, i.e. 3G costs.

6) Fixed Network

- Generates strong cash flow for the group.

Steady cash flows will fund company's entire business plan

Ultimately, this business will fund the group's plans. The IDD market is extremely competitive these days. In fact, HKT lost a tremendous amount of business when its monopoly ended as other players started aggressively lowering prices. The domestic fixed-line market in Hong Kong is also saturated. The outlook for further growth in this area is low, but this continues to be a critical core business for the group with its ability to generate substantial cash flow. So, while the traditional telephony business does little to excite investors, its importance cannot be ignored as it will give PCCW the leverage to expand its other businesses, which will be the real growth drivers.

7) CyberWorks Ventures (CWV)

- Internet Investment arm of the group.
- Spent nearly US$800m in acquisitions and tie-ups.
- Equity stakes in over 50 companies.

CWV finds talented people and ideas

CWV is the investment vehicle through which PCCW carries out its venture capital activities. CWV has grown at a frenetic pace since PCCW was established last Aug. As a venture capitalist of Internet-related start-ups, CWV invests in a broad spectrum of companies. The idea is not only to find suitable investments, but also bring together a core group of companies and, more importantly, people able to help PCCW implement its overall strategy. Whether its expertise to help roll out broadband strategy or merely to provide content, CWV continues to bring innovations and new ideas to the PCCW umbrella. The depth of the companies already brought into the vehicle is impressive, but CWV has not let up and continues to announce additional deals.

CWV has often been compared with Japan's Softbank and US-based CMGI, the two largest venture capital vehicles. In fact, CMGI and PCCW announced in Sep99 that they would swap shares to bring their expertise closer (we must point out that approximately US$350m of the US$800m invested is attributable to this deal alone). This tie-up was no surprise to the market, as PCCW had quickly emerged as the premier Internet player in Asia, outside of Japan. A number of the major Internet deals in Hong Kong and, in particular, China have involved CWV in some manner. We believe this trend will continue and future blockbuster deals will again involve PCCW.

CWV has evolved into an investment arm of PCCW

PCCW has clearly stated that the investments in CWV are designed to help the company achieve its overall strategy. Each investment is NOT viewed in the context that it will go public. Hence, the company acts slightly differently from other venture capitalists/incubators. An exit strategy for companies in which CWV has investments may not necessarily exist. Instead, the companies may be seen as providers of important products, services, technologies, etc. We believe that CWV, although established as a traditional incubator, has gradually evolved into the investment arm of PCCW. The group will likely seek out target companies to bring into the PCCW fold. The companies in which CWV invests in future are likely to be less sporadic and will, probably, be entities involved in specific industries. Where initial investments were previously scattered across various areas, the company now has specific targets. It is likely to focus on companies that will speed it along towards its objectives.

8) PCCW Properties – Cyberport and Other Properties

- Projects include Cyberport, a property development in Hong Kong designed to host the technology companies of the next decade.
- Also holds several other properties obtained from PCRD as part of its injection, following the backdoor listing of PCCW.

Properties likely to complement business of the group

Cyberport will be the ultimate breeding ground for Asia's technological advancement. As Hong Kong races to wire itself into the next digital age, Cyberport will quickly emerge as the capital of technological innovation in Asia. By bringing together at one location the knowledge and co-operation of the leading technology players, Cyberport will be able to breed a whole new set of achievements.

Cyberport was originally conceived as a place for technology companies to interact. The Hong Kong Government was quick to embrace the concept. More importantly, Cyberport has finally given Hong Kong a breeding ground for engineering ideas, products and services. Previously, Hong Kong did not have any strong technical education mainly because it lacked the human resources. Cyberport addresses this issue and all the other possible synergistic relationships.

Other properties

PCCW's other major property assets include:

- 2.3m sq ft of mixed-use development in Beijing, Pacific Century Place.
- The Broadway, a 65,451 sq ft office and retail development in Wanchai.
- An industrial complex in Shenzhen.

These assets originally belonged to PCRD, but were transferred to PCCW as part of the backdoor listing of Tricom in Aug 99 (which became PCCW). However, these assets, including Cyberport, do not fit in with the risk/return profile of PCCW and, as such, the company has indicated that it may eventually dispose of these assets. We believe that, if it does, PCRD will be the most likely candidate to take on some of these projects.

Value to PCRD

PCCW accounts for nearly 95% of PCRD's value

Just by its sheer magnitude, PCCW accounts for nearly all of PCRD's value (94%). The future of PCRD hinges on PCCW's ability to grow. This, more than anything else, has handcuffed PCRD. Even if it manages to expand into other businesses and grow them successfully, the enormous size of PCCW will dwarf other projects.

Nevertheless, PCCW has emerged as the premier Internet player in Asia. With the combined resources of both PCCW and HKT, the new company is set to expand rapidly around the region. We remain extremely positive about the long-term outlook for PCCW and its leadership role in the future convergent media business.

PACIFIC CENTURY INSURANCE (PCI) ➤

Chart 7. Http://www.cyberpci.com

PACIFIC CENTURY INSURANCE
盈 科 保 險
Pacific Century Insurance Holdings Limited
(An investment holding company incorporated in Bermuda with limited liability)

Pacific Century Insurance
PCi Healthcare

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Skip Intro

Business

PCI was formed following the acquisition of Top Glory Insurance in 1994 and subsequently listed in the Hong Kong market on Jul99. It is principally engaged in the provision of individual life insurance, group insurance and provident fund and life personal accident insurance. PCI posted a net profit of HK$75.6m in FY99, 10% higher than stated in the prospectus. It recently reported its interim results for 1H00 with net profit increasing 65.5% to HK$52.3m. Total premiums grew 8.8% to HK$770.4m, while total assets rose 9.3% to HK$3,925.3m. PCRD recently increased its stake in PCI from 40.8% to 44.7% through a purchase of shares.

Overview

The insurance business faces a difficult environment in Hong Kong. In its results announcement, PCI warned investors that it expected to report a "significant loss" for FY00 due to increased personnel (agents) costs and the cessation of financial reinsurance arrangements. However, the group also proposed new accounting rules that will bring it in line with international standards, which, if implemented, would have a "substantial positive effect" on the results. Nevertheless, the warning served to highlight the difficult conditions facing PCI. Competition from others, such as Aetna and AIA, has increased pressure on margins. With the insurance market largely saturated, very little growth is expected in Hong Kong.

China entry is primary goal, but revenue growth may be minimal

The company plans to expand into Southeast Asia. It has already identified companies in both the Philippines and Indonesia, which it may acquire or form joint ventures with. However, the silver lining for PCI is the progress it has made to enter the lucrative China market. Numerous insurers have been salivating at the opportunities available in China, but none has really broken into the heavily guarded market. Although PCI has laid the groundwork in China by setting up representative offices in Beijing, Shanghai and Guangzhou, its ability to enter the mainland remains questionable. While China's WTO entry may open the door for PCI, we continue to take an extremely conservative view that the company will earn a modest profit and show small revenue growth in its existing Hong Kong insurance business in the coming years. This is likely to be reflected in a stagnation of the share price going forward. Given this prospect, we are slightly puzzled by PCRD's recent purchase of an additional 4% stake in the company following its results announcement and subsequent warning. We believe its cash could have been better utilised elsewhere.

Value to PCRD

PCI is small in value to PCRD, but may offer synergy in future

PCI accounts for less than 1% of PCRD's equity value. Each HK$0.10 movement in PCI's share price is equivalent to a mere S$0.02 adjustment in PCRD's share price. In fact, PCI's contribution is so negligible that investors have all but forgotten about this company. While we agree that its value in the overall scheme of things at PCRD is small, it does have the ability to complement the group's other businesses. PCI may later play an important role, complementing PCRD's new businesses.

PROPERTY & INFRASTRUCTURE ➤

Business

PCRD also owns a number of properties and infrastructure-related projects. Most properties located in Hong Kong and China were transferred to PCCW when it gained a backdoor listing through Tricom in Aug 99. However, the company retained a few properties for its own portfolio.

Six major properties and one infrastructure project

PCRD holds six major properties – two in Singapore, two in India, one in Vietnam, and most recently, a reacquired property in China. PCRD also holds a stake in a power plant in China.

The Clayton, Singapore.

A 10-unit residential tower, with one apartment per floor, averaging 1,835 sq ft per unit, located at 36, Ewe Boon Road. Completed in 1998, all 10 units have been let.

No.1, Holt Road, Singapore.

Located in District 10, this freehold condominium is scheduled for completion in the 4Q of this year. It comprises 12 storeys of 80 luxurious apartments. Marketing about to be launched.

Fort House, Mumbai, India.

Fort House, to be completed in the 4Q of this year, is the first international grade-A office building in Mumbai. The building, developed jointly with Videocon International Ltd, a listed Indian conglomerate, has a floor area of more than 100,000 sq ft on 10 floors, including six office floors, two retail floors and two basement carpark levels. Negotiations are ongoing with prospective tenants for the building. The company claims it has already signed a letter of intent with a "major international bank" for three floors. PCCW will occupy one floor of the building.

Golden Greens Golf Resort, Gurgaon, Delhi, India.

Construction work is still under way at this 51%-owned joint-venture golf course. The finished development will comprise a 24-room luxury resort, 100 villas on one-acre lots and an 18-hole golf course and clubhouse on some 290 acres of land. The golf course is scheduled for completion by Dec00.

Chancery Saigon Hotel, Ho Chi Minh City, Vietnam.

The all-suite 96-room Chancery Saigon Hotel is 70% owned by PCRD. With an oversupply of hotels and the difficult business climate in Ho Chi Minh City, the Chancery faces tough conditions, but claims to have achieved an above-market occupancy rate of approximately 59% last year. The occupancy rate is now 62%, despite ongoing adverse conditions in the hotel sector.

Parkade (underground carpark), Shanghai, China.

Interestingly, this asset was one of the original properties transferred to PCCW. By buying this asset back from PCCW, PCRD has created a precedent for possibly reacquiring properties from PCCW.

Gao Yao Power Plant, Guangdong, China.

The company also owns a joint-venture stake in Gao Yao Power Plant, located in Guangdong, China. The plant reported a loss in FY99, as the company prudently made provisions against certain receivables, in addition to decreasing the depreciation life of the plant. However, the company is unlikely to pursue its operations here and, more importantly, make further investments in the sector. As such, PCRD is likely to dispose of this asset.

Overview

While these properties and projects do little to excite investors, we believe they are positive as they indicate another possible direction for the company. The reacquisition of the carparks in Shanghai indicates that more inter-company transactions may follow. These would provide adequate cash flow and a solid foundation for further property acquisitions and developments.

Value to PCRD

Further property assets expected to be added

These properties have a book value of S$768m, or just over 3% of PCRD's value. While the amount is not meaningful at this time, we believe PCRD will eventually seek further activity in this area. We expect it to acquire more property assets, possibly including those now owned by PCCW. This will expand PCRD's property portfolio, increasing its importance to the overall group.

RISKS ➤

Richard Li is still the key

Need for competent managers to run PCRD

Even with an independent management team, Richard Li will still be the ultimate shareholder and the decisionmaker. With PCRD based in Singapore and Richard Li in Hong Kong, not to mention the devotion of most of his time to PCCW, there is some risk that PCRD will be incapable of acting on its own. Major decisions will still need to be made and Richard Li will, ultimately, make them. However, we believe that there will, initially, be significant inter-company dealings, which already involve Richard Li. He has indicated to investors that most of his personal attention will be dedicated to running the NOW broadband strategy. At PCCW, he has surrounded himself with competent managers and is involved in many decisions throughout the company's various businesses. We believe Richard Li will be able to position key individuals at PCRD to allow it to operate independently. To borrow from our analogy again, this is similar to the way Richard Li's father, Li Ka-shing, runs his Cheung Kong group. Key individuals have decision-making powers with regards to certain business elements and only the forward, overall strategy and major decisions are made by Li Ka-shing.

PCRD's independent business plan may not materialise

Success of entire group will hinge on future synergies

As we have suggested, we believe that PCRD will develop its own business plan. However, there is a fair amount of uncertainty that management will be able to make decisions on its own, without input from Richard Li. To achieve this independence a strong group of individuals will have to be recruited and subsequently based in Singapore. We believe such a move is already underway. However, we will have to wait and see if such a group can indeed be independent. The two companies are still very much linked together, and the entire organization hinges on future synergies.

PCCW is in a development phase

PCCW ventures may take years to pay off

A significant amount of risk associated with PCRD lies in its holding of PCCW. Both investment and overall risks are inherent in PCCW, which is a relatively new company because gained a backdoor listing in May99. The new merged entity has only barely begun operations and synergies will materialise with time. Investors previously bought into PCCW based on its future prospects. However, realisation of those prospects will be difficult until the company's ability comes to light. As most of the ventures are still in the early stages of development (for example, NOW only went live on Jun 29, 2000), many of PCCW's businesses are difficult to quantify. In fact, it may take years before some of these ventures start paying off. Recent downturn in sentiment is evident that investors are still cautious about the company. Still, we are confident that PCCW is a solid investment vehicle for the future Internet/telecommunication industry.

PCCW is a volatile stock in a volatile sector

High beta stock

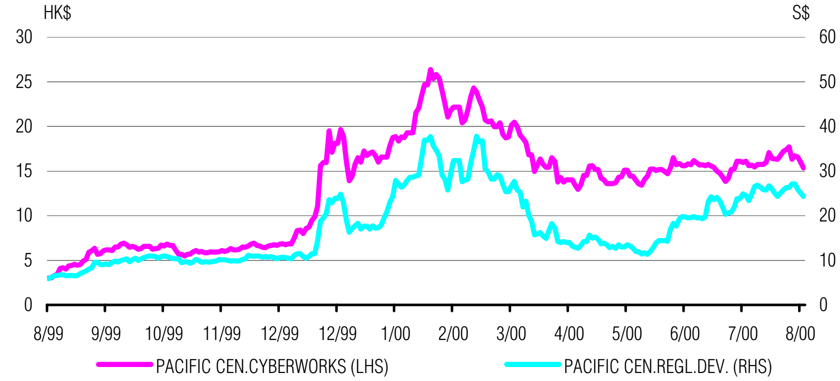
PCCW has a substantially high beta, given its business profile (the Internet) and its huge liquidity (PCCW is usually one of the top five, if not the highest traded stock by turnover in Hong Kong). Internet shake-ups around the world have further added to the stock's volatility and its liquidity. Even before the merger with HKT, PCCW was an actively traded stock. Its new merged role has only added to its high profile. Recent price movements have highlighted this issue.

PCRD cannot escape from the shadow of PCCW

Susceptible to movements in PCCW's share price

Unfortunately, because of PCCW's size and value in relation to PCRD, the share-price movements of PCRD is, in many ways, merely a reflection of the share-price movements of PCCW in Hong Kong (see graph on cover). For PCRD to break away, it will need to find its own business strategy – something, we are confident it will achieve. While PCCW will continue to hog the limelight, we believe PCRD will be able to grow steadily and develop into a noteworthy company in its own right.

Chart 8. Historical Share Price PCCW & PCRD



Source: Datastream

Singapore may be an unsuitable listing venue

Good and bad aspects of listing outside Hong Kong

A Singapore listing may not be suitable for a company like PCRD. With many businesses in Hong Kong, Singapore investors may never truly understand the group's inner workings. Additionally, some listing requirements may be too stringent for PCRD to react quickly. PCCW, for example, will find its corporate activity somewhat hindered in a marketplace like Singapore. Its pace of activity is likely to test the limits of local regulations. Nevertheless, this is an immaterial risk for PCRD because, we believe, any hurdles the group faces can be overcome quickly. Indeed, most of the future deals are likely to involve assets, such as property, which are not as time sensitive or delicate as Internet-related investments. PCRD may actually do well domiciled in Singapore as it can focus independently and not be influenced by PCCW and the Hong Kong market.

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