

Press Clipping

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RM4.6b white elephant?

Port Klang Free Zone faces cost issues, say critics

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THE RM4.6 billion Port Klang Free Zone (PKFZ) project is facing criticism, with players in the logistics sector saying that the 405ha facility in Pulau Indah risks becoming a white elephant.

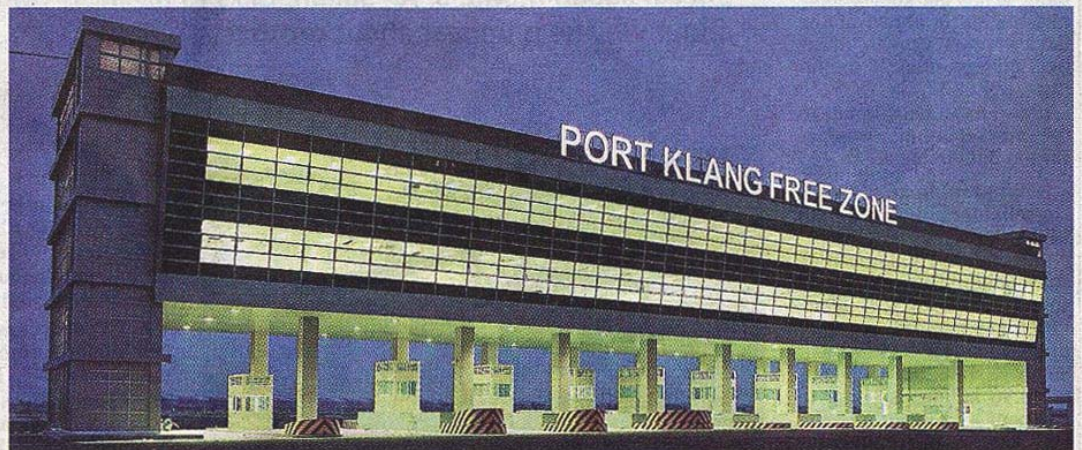
PKFZ is owned by the Port Klang Authority (PKA).

Port Klang Free Zone Sdn Bhd's (PKFZSB) newly-appointed general manager of business development, Chia Kon Leong, said as manager and marketer of PKFZ, the company was working overtime to make sure that the free zone is a success.

"PKFZ will not be a white elephant as has been said of Westports and Port of Tanjung Pelepas (PTP) in the past (when they were newly set up). Jafza International (Jafza) took about 10 years to get its (Jebel Ali) free zone going, and today investors are queuing to get in. With our free zone better positioned, our journey (to success) will be shorter," said Chia via the short message service.

Jafza is operator of the Jebel Ali Free Zone but the company recently pulled out of a 15-year contract to manage PKFZ, citing a change in business strategy.

Critics of the project, however,



The take-up rate for space at Port Klang Free Zone remains low, says an industry source

have raised numerous issues, with some saying that it is overly ambitious. It comprises building 512 warehouses of 5,487 sq ft each, 2,000 covered parking bays, four eight-storey office buildings, a three-storey exhibition centre and a four-star hotel.

They also questioned the project's development cost which has ballooned from an original estimate of RM100 million to RM3.6 billion.

"How did they (PKA) decide to invest that amount (RM3.6 billion)?

Why 512 warehouses? Did PKA conduct a feasibility study to determine what type of infrastructure would be required before starting construction? As it is, the take-up rate for space at PKFZ remains low," an industry source told Business Times.

The source pointed out that other free trade zone operators in the country usually build their facilities based on demand to reduce risk.

"For example, PTP will only develop the land in its Pelepas Free
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Concerns also raised over PKA's move into free zone operations

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Zone when there is investment.

"To date, the port has spent some RM300 million to develop infrastructure in Pelepas Free Zone which is similar in size to PKFZ," the source added.

Eyebrows were first raised when PKA bought the land in 2002 for RM1.05 billion or RM25 per sq ft from Kuala Dimensi Sdn Bhd, a subsidiary of Wijaya Baru Global Bhd, as many said the land was over-priced.

It has been reported that Kuala Dimensi bought the land in 1999 from the Pulau Indah Malay Fishermen Cooperatives for RM95 million or RM3 per sq ft.

Concerns were also raised over the government body's move into property development and free zone operations.

PKA further infuriated the industry with its decision to appoint Kuala Dimensi as a turnkey contractor to develop the PKFZ.

According to sources, Kuala Dimensi had issued bonds to finance the development costs, but is now having difficulty repaying its first bond payment totalling some RM570 million, which is due this year.

"The Government initially approved a cost of RM100 million to develop PKFZ, after which any additional cost had to be approved first by the Ministry of Finance. However, Kuala Dimensi has flagged a RM3.6 billion in cost overruns since starting the project in 2003," said a source close to the matter.

"About one-and-a-half months ago, the company had asked the Government for a soft loan amounting to RM3.6 billion, being the sum spent to develop PKFZ.

"It is understood that the Government has approved it, which brings the total project cost to RM4.6 billion, including for land acquisition," the source added.

Since its soft launch in November last year, PKFZ has attracted RM468.3 million worth of investments from six companies for prepared land to build manufacturing facilities, eight companies for the light industrial or warehouse units and seven companies for the leased business complex.

Norway's Aker Kvaerner, Salarium Argentum Inc and Pantech Group Holdings Bhd are among the companies that have or are setting up their base there.

However, industry executives are still not so optimistic.

"Even if they get the investors, how are they going to recover the RM4.6 billion spent? Now they (PKFZ) are probably giving very low lease rates just to fill up space, sparking a price war among free trade zone operators in the country," said one industry source.

Northport (Malaysia) Bhd managing director and chief executive officer Datuk Basheer Hassan Abdul Kader said so far, Northport has yet to get much benefit out of the development of PKFZ, which is situated in close proximity to Westports.

He said instead, the project might pose a threat to Northport's own free commercial zone.

"So far, we are competitive (in terms of rates offered among free zones), but we are watching (with the entry of PKFZ)," he said at a media workshop on Thursday.