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**Panel on Information Technology and Broadcasting
Meeting on 8 February 2002**

Background brief on Cyberport

Background

The Financial Secretary announced in the 1999-2000 Budget that the Government would proceed with the Cyberport project at Telegraph Bay, Pokfulam in cooperation with Pacific Century Group (PCG). The project comprises a Cyberport Portion and an ancillary Residential Portion. The Cyberport Portion aims to create a strategic cluster of leading information technology (IT) and information services (IS) companies and a critical mass of professional IT/IS talents in Hong Kong. The Residential Portion will generate revenue to drive the project.

2. The Government has set up three limited companies owned by the Financial Secretary Incorporated (the FSI companies) for undertaking the Cyberport project. On 17 May 2000, the FSI companies signed the Project Agreement with Pacific Century CyberWorks (PCCW) and Cyber-Port Limited set up by PCCW as the Cyberport developer. The development right of the Cyberport was granted to the developer on 8 June 2000. The Cyberport project is scheduled for completion in phases between early 2002 and end 2003.

Discussion at Council Meetings

3. Over 30 Members spoke on the Cyberport project during the debate on the 1999-2000 Budget on 24 and 25 March 1999.

4. On 6 December 2000, Miss Emily LAU asked a written question on whether the financing activities and progress of the Cyberport project had been affected by the considerable drop in the share prices of PCCW. In its reply, the Administration had stated that they had not identified any areas of concern regarding the financing arrangements and that the project was progressing on schedule.

5. In his oral question raised on 19 December 2001, Hon Abraham SHEK enquired about the selection of tenants of the Cyberport. The Administration provided an explanation on the selection mechanism and informed members that so far, 72 applications from interested companies had been received. In response to Members' concerns, the Administration agreed to provide more details on individual tenants after they had moved into the Cyberport in due course.

Funding proposals

6. Three funding proposals on the infrastructural projects relating to the Cyberport development at Telegraph Bay were considered and endorsed by the Public Works Subcommittee and subsequently approved by the Finance Committee on 21 May 1999, 9 June 2000 and 15 December 2000 respectively. The proposal to create the two supernumerary directorate posts for three years up to end June 2002 for overseeing the project was approved by the Finance Committee on 2 July 1999 after its endorsement by the Establishment Subcommittee.

Discussion at Panel

Implementation of the project

7. In principle, members had no objection to building a Cyberport in Hong Kong. Some Members appreciated the Administration's promptness in concluding the project as the right proactive move to enhance the development of an information economy in Hong Kong. Some Members, on the other hand, were strongly dissatisfied with the Government's decision to award the project to PCG without going through the usual competitive tendering process. They were gravely concerned that the project had set a bad precedent of deviating from established procedures and might tarnish Hong Kong's image as a free market economy.

8. The Administration had stressed the urgency for Hong Kong to secure the "first-mover" advantages in the face of rapid developments in the IT industry and keen competition from neighbouring countries. The Administration would develop the Cyberport project in conjunction with PCG in consideration of the company's expertise in IT services and its commitment to undertake the investment and risks. The Administration undertook to make known its future policy guidelines in implementing major development projects involving the private sector (The Panel on Financial Affairs had been briefed on such guidelines on 6 December 1999). It would also report progress of the Cyberport project to the Panel on Information Technology and Broadcasting on a periodic basis.

9. Between June 1999 and July 2001, the Panel on Information Technology and Broadcasting has been briefed at eight meetings on the progress of the

Cyberport.

Intended objective

10. The Panel was keen to ensure that the project would serve its intended objective of creating a strategic cluster of IT/IS companies instead of competing with other developers in offering quality office and residential premises. Members requested the Administration to take active measures to ascertain that the business nature of the tenant companies was consistent with the Cyberport vision.

11. In this regard, some members also questioned whether there was an element of government subsidy in the rental of the Cyberport offices. In response, the Administration confirmed that there was no question of government subsidy as the announced monthly rental of HK\$11 to HK\$13 per ft² lettable had been recommended by an independent consultant and was comparable to similar facilities in other countries.

Admission of tenants

12. The Committee on Admission of Cyberport Office Tenants (CACOT) was set up in March 2001 to advise on matters relating to the selection and admission of Cyberport tenants. The CACOT comprises local, international and industry experts. The Administration subsequently announced in April 2001 its invitation to IT companies to submit applications for office tenancy for all the phases of the Cyberport.

13. On whether priority would be given to overseas IT companies which established their offices in Hong Kong for the first time by becoming a Cyberport tenant, the Administration advised that pursuant to the objective of the Cyberport, IT companies which planned to establish their regional headquarters in the Cyberport will probably be given priority.

Office accommodation

14. Members were concerned about the adequacy of office space to meet the demand and had asked the Administration to seriously consider converting the residential units in the Cyberport Portion into office premises and explore other means to make available more office space.

15. At the meeting held on 9 July 2001, the Administration informed members that 23 000 m² of office space, mainly for leasing to IT companies, would be provided under the first phase of the Cyberport to be completed in early 2002. It was originally proposed that 144 residential flats (of 19 500 m²) in the Cyberport Portion would be provided by end 2002. However, to address members' concern, the Administration had obtained approval from the Town Planning Board to convert this area into office premises to accommodate

some 25 extra IT companies by end 2002.

16. The Administration has also decided to defer the quality housing development (of 8 100 m²) in the Cyberport Portion in order to assess the demand for such quality housing more accurately. In this regard, members have asked the Administration to take into consideration the supply of comparable quality housing in the vicinity of the Cyberport when making the assessment.

Institutional and financial arrangements

17. The Panel note that the FSI companies are responsible for undertaking the Cyberport project. In view of the need to adhere to fair and prudent commercial principles in taking decisions relating to the Cyberport, members asked the Administration to enlist more independent persons in drawing up the future institutional arrangements and to consider the establishment of a management committee under the Board of Directors for some or all of the three FSI-owned Cyberport companies. The Administration assured members that it would review the composition of the Board of Directors of the FSI companies.

18. On the financial arrangements, members noted that pursuant to the Project Agreement, the Cyberport developer had procured from an A-rated bank a cashflow guarantee, with the Government as the beneficiary, to cover the cashflow requirements for every next six months. In view of the duration and scale of the project, members highlighted the need for the Administration to adopt a prudent approach and prepare for any eventualities.

Latest position

19. The Panel paid a visit to the Cyberport site on 5 December 2001. The visit was participated by six Panel members and two non-Panel members.

20. The Panel will receive the next progress report at its meeting on 8 February 2002.