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Panel on Information Technology and Broadcasting
Meeting on 8 July 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. Phase CI was completed and ready for occupation in early April 2002.

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. Hon Emily LAU asked a written question on the financing arrangements of the Cyberport project at the Council meeting on 6 December 2000. In his oral question raised on 19 December 2001, Hon Abraham SHEK enquired about the tenancy position of the Cyberport.

Funding proposals

5. Three funding proposals on the infrastructural projects relating to the Cyberport development at Telegraph Bay at an estimated total cost of about \$1.1 billion were endorsed by the Public Works Subcommittee and subsequently approved by the Finance Committee (FC) on 21 May 1999, 9 June 2000 and 15 December 2000 respectively.

6. The proposal to create two supernumerary directorate posts in the Information Technology and Broadcasting Bureau (ITBB) for three years up to end June 2002 for overseeing the project was approved by FC on 2 July 1999 after endorsement by the Establishment Subcommittee (ESC). The Administration subsequently proposed to retain the two supernumerary posts in question for a further period of 18 months to enable the secondment of two suitable officers to a management team set up under a private company owned by FSI. The proposal was endorsed by ESC and approved by FC on 24 May 2002.

Discussion at Panel

7. Between June 1999 and June 2002, the Panel has discussed and monitored the progress of the Cyberport project with the Administration at nine meetings. The Panel was last briefed on the progress of various key activities of the project and the tenancy position for the Phase I Building (Phase CI) on 8 February 2002 and 8 April 2002 respectively.

Intended objective

8. 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.

9. With a view to ascertaining how far the Cyberport could achieve its intended objective, members had on various occasions requested information on the profiles of the prospective tenants, in particular the nature of their business, whether they were setting up new business/offices in Hong Kong by becoming Cyberport tenants, or simply relocating from other parts of the territory. The Administration had agreed to provide more information on the tenant companies after they had signed the tenancy agreement.

10. In response to some members' query about the role of the Government as a proactive market enabler as highlighted by the Financial Secretary in his 2002-03 Budget Speech, the Administration advised that in implementing the Cyberport project, the Government was seeking to provide a world class IT infrastructure and that it was common for overseas governments to take the lead in implementing infrastructural projects beneficial to the economy.

Financing arrangements

11. Given the massive scale of the project, some members had expressed serious concern about the financing arrangements for the project, and sought information on the respective capital contribution of the Government and PCG and the expected investment return.

12. The Administration recapped that pursuant to the Project Agreement, the Government's capital contribution was the Residential Portion Land Value at the time of grant of development right to the Cyberport developer while PCG's contribution would be the outturn of the peak funding requirement. The Residential Portion Land Value was \$7.8 billion, which already included the estimated cost of around \$1 billion for infrastructural works. Cyber-Port Limited was responsible for the total construction cost of both the Cyberport Portion and the Residential Portion. As at end May 2002, it had spent some \$2.5 billion on the project. As the Residential Portion was not yet put up for sale, the Administration could not provide the projected investment return at this stage, but had undertaken to update members in due course.

13. As required under 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. The Administration informed members that the current cashflow guarantee held by the Government guaranteed the forecast cashflow requirements of the project for the period from 1 July to 31 December 2002.

Tenancy position for Phase CI (Phase I Building)

14. Members noted with grave concern that only one company (out of the 15 companies) which had signed a letter of intent and two other companies had taken up tenancy in Phase CI when the building was ready for occupancy in April 2002. They were worried about unsatisfactory take-up rate as a result of the current economic conditions and the consolidation of the IT/IS industry. In this connection, members also noted that in May 2000, the Administration had agreed to drop the take-up guarantee which PCG had agreed to provide pursuant to the Letter of Intent.

15. In response to members' concern, the Administration assured members that negotiation on tenancy with interested companies was ongoing and reported in May 2002 that a total of five companies had confirmed their tenancy taking up about 60% of the total lettable space in Phase CI. The Administration had also informed the Panel that none of the companies which had signed letters of intent to become anchor tenants had withdrawn, but some of them would prefer to synchronize the Cyberport leases with their existing lease commitments.

16. In this connection, a member suggested that the Administration might consider introducing more flexible leasing terms in the early stage such as shorter leasing period, longer rent-free period for fitting out etc. He considered that these measures could help create a strategic cluster of IT companies to give impetus to further growth.

Cyberport Institute

17. Members noted that the University of Hong Kong (HKU) had been selected to operate the Cyberport Institute in the Cyberport. Major IT companies as industrial partners would collaborate with HKU in developing the curriculum, providing hardware and software support, arranging internship placement, offering instructors' training courses and scholarships.

18. On whether the establishment of the Cyberport Institute was compatible with the original objective of the Cyberport, the Administration had advised the Panel that as an IT infrastructural project, Cyberport would also be a place to nurture IT talents. The report of the Taskforce on IT Manpower published in July 2001 also supported the implementation of an academic plan in the Cyberport and saw the Cyberport internship programme as an initiative in grooming talent to support the many IT developments and related businesses in Hong Kong. Whilst noting that its programmes would be run on a self-financing basis, members had requested further information on the source of funding for the Cyberport Institute.

Latest position

19. The Panel will receive the next progress report at its meeting on 8 July 2002.