

**Panel on Information Technology and Broadcasting
Meeting on 28 January 2003**

Background brief on Cyberport

Background

The Cyberport project was undertaken by the Government in co-operation with Pacific Century Group (PCG) in 1999. The project, which comprises a Cyberport Portion and an ancillary Residential Portion, is scheduled for completion in phases. Phase CI of the Cyberport Portion was ready for occupation in early April 2002. 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 while 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 project. On 17 May 2000, the FSI companies signed the Project Agreement with Cyber-Port Limited, which is a company set up under PCG to perform the role of the Cyberport developer, and with its parent company, which is Pacific Century CyberWorks (PCCW). The development right of the Cyberport was granted to the developer on 8 June 2000.

3. While the construction cost for the Cyberport Portion and the Residential Portion of the project will be borne by the Cyberport developer, the Government was responsible for providing the necessary infrastructure for the Cyberport. Between May 1999 and December 2000, the Finance Committee approved funding totalling some \$1.1 billion for the following works:

- (a) Provision of roads, drains and the essential infrastructure for the Cyberport development;
- (b) construction of the northern access road and associated drains and waterworks; and
- (c) extension of water supply to Pok Fu Lam areas.

Discussion of the project at Council Meetings

4. In the wake of the announcement of the Cyberport project in the 1999-2000 Budget, over 30 Members spoke on the subject during the Budget debate on 24 and 25 March 1999. While Members do not object in principle to the construction of a Cyberport in Hong Kong, some Members were gravely concerned about the manner in which the project was taken forward in that it had been awarded to PCG without any competitive tendering.

5. Following implementation of the Cyberport project, questions were raised on the project from time to time at Council meetings. In gist, Members were concerned about the financing arrangements for the Cyberport amidst the current economic downturn, whether the Cyberport could achieve the intended clustering effect, the tenancy position and the appropriateness or otherwise in offering concessionary rent-free periods to Cyberport tenants.

Review of the progress of the project by the Panel

6. Between June 1999 and December 2002, the Panel has discussed the progress of the Cyberport project at 10 meetings. The Panel was last briefed on the subject on 8 July 2002. Questions relating to the objective of the Cyberport were also raised during the briefing on the 2003 Policy Address. The major areas of concern expressed by members on various occasions are summarized in the following paragraphs.

Intended objective

7. 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 also requested the Administration to take active measures to ensure that the business nature of the tenant companies was consistent with the Cyberport vision.

8. In this regard, the Administration stressed that the Cyberport would not compete for tenants by offering low rent. As an IT infrastructure, the Cyberport would seek to achieve the clustering effect by providing state-of-the-art facilities and a world-class working and living environment. The Administration further advised that the prevailing rental plus management fees at the Cyberport were even slightly higher than those of office premises in districts such as Quarry Bay where many IT/IS companies were located.

9. With a view to ascertaining how far the Cyberport could achieve its intended objective, members had sought information on the profiles of the

prospective tenants, in particular the nature of their business, and whether they were setting up new business/offices in Hong Kong by becoming Cyberport tenants, or simply relocating from other parts of the territory. To address members' concern, the Panel had requested the Administration to provide, where practicable, information on the office space occupied by the tenants before and after they had become Cyberport tenants, as well as the number of employees employed by them.

10. Regarding members' concern about the job opportunities which would be available at the Cyberport, the Administration had informed the Panel that the overall job openings offered by tenants in Phase CI was around 1 000 to 2 000 while a few hundred job opportunities would arise from the retail services to be provided at the Cyberport. The Administration had envisaged that more employment opportunities would arise in the years to come upon completion of the remaining Phases.

Financing arrangements

11. 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. (Members were informed of details of the Project Agreement vide LegCo Brief ITBB/CP303/2(00) dated 17 May 2000). The Residential Portion Land Value was \$7.8 billion, which already included the estimated cost of \$1.1 billion for infrastructural works. 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. Nevertheless, the Administration advised that to safeguard the Government's interests, a secured accounts structure would be set up whereby an independent security trustee would be engaged to apply the proceeds of the sales of the Residential Portion strictly in accordance with the terms stipulated in the Project Agreement.

12. As required under the Project Agreement, the Cyberport developer has procured from an A-rated bank a cashflow guarantee, with the Government as the beneficiary, to cover the ongoing cashflow requirements for every next six months.

Tenancy position

13. As a result of subsequent changes made to the original development plan, the entire project now consists of six Phases, namely, Phase CI which was ready for occupation in April 2002, Phase CIB, Phase CIA, Phase CII, Phase CIII and Phase CIV. The total lettable office space in all Phases will be well above 90 000m².

14. Given the current economic climate and the consolidation of the IT/IS industry, some members were gravely concerned that the take-up rate of office accommodation in the Cyberport might not be as satisfactory as previously envisaged. They also noted that in May 2000, the Administration had decided to drop the take-up guarantee which PCG had agreed to provide under the Letter of Intent.

15. In its reply to a written question at the Council meeting on 30 October 2002, the Administration provided a list of 13 companies and organizations which had leased or committed to lease office space in the Cyberport. It also considered the take-up rate of some 90% of the total lettable space in Phase CI satisfactory and assured members that proactive measures were being taken to encourage overseas and mainland IT enterprises to launch their businesses in Hong Kong and in the Cyberport. The Administration undertook to update members on the tenancy applications for each of the remaining Phases in future progress reports.

16. Regarding the leasing terms for offices in the Cyberport, the Administration confirmed that in cases where commercial principles were adopted in leasing government properties, the Government followed the normal market practice and could offer appropriate rent-free periods to tenants from private enterprises. The offer of rent-free periods to Cyberport tenants was therefore not exceptional.

17. On the selection of Park'n Shop to operate a supermarket in the Cyberport, the Administration explained that a consultancy firm had been commissioned to co-ordinate the lease arrangements for retail service in the service annex of Phase CI. At members' request, the Administration had agreed to provide further information on the selection arrangements for the supermarket.

Other developments

18. The Panel 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. The Cyberport Institute was inaugurated on 25 June 2002. It will start providing two postgraduate courses in Phase CIA of the Cyberport around mid 2003 when the premises are ready for occupation.

19. Regarding some members' concern about whether the establishment of the Cyberport Institute was compatible with the original objective of the Cyberport, the Administration had advised 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 the Institute's programmes would be run on a self-financing basis, the Panel had requested the Administration to provide further information on the funding arrangement for the Cyberport Institute in due course.

20. In the context of the Administration's briefing on relevant issues in the 2003 Policy Address, members have been informed about the proposal to establish a Digital Media Centre in the Cyberport to provide common facilities for use by multi-media and digital entertainment content developers.

Latest position

21. The Panel will be briefed on the latest progress of the Cyberport project at the next meeting to be held on 28 January 2003.