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*Legislative Council*

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**Panel on Information Technology and Broadcasting  
Meeting on 21 July 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. Up to February 2003, Phases CI, CIA, CIB and CII have been completed for occupation as scheduled. 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. 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 January 2003, the Panel has discussed the progress of the Cyberport project at 11 meetings. The Panel was last briefed on the subject on 28 January 2003. Questions relating to the objective of the Cyberport were also raised during the briefing on the 2003 Policy Address. To acquire first-hand information on the progress of the project, the Panel paid a visit to the Cyberport on 5 December 2001 and on 8 July 2003.

7. The major areas of concern expressed by members on various occasions are summarized in the following paragraphs.

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

9. The Administration had all along stressed that the Cyberport would not compete for tenants by low rent. It had advised that the prevailing rental plus management fees at the Cyberport were comparable or even higher than those of office premises in districts such as Quarry Bay where many IT/IS companies were located. The Administration pointed out that the major attractiveness of the Cyberport was its state-of-the-art infrastructure, campus-like environment and the synergy that could be unleashed among like-minded companies.

10. To ascertain how far the Cyberport could achieve its intended objective, members 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. The Panel had also 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.

11. The Panel noted from the last briefing that as at end 2002, out of the 17 companies and organizations that had leased or committed to lease Cyberport offices, only two companies were new to Hong Kong and one was a newly set up local company. Although Cyberport tenancy was not restricted to new or overseas companies, members remained concerned about the attractiveness of the Cyberport to new business ventures and would continue to monitor the uptake of office premises in considering whether the project could achieve its intended clustering of leading IT companies.

12. In this connection, the Administration considered that it would be more meaningful to evaluate the effectiveness of the Cyberport in about one to two years' time when various business and functional activities were up and running. In the longer run, the Administration believed that the launch of the Digital Media Centre (DMC) and the wireless development support centre would attract prospective tenants and that the Cyberport could help spawn new business activities such as wireless services and applications and digital entertainment.

13. Regarding members' concern about the job opportunities which would be available at the Cyberport, the Administration had advised 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.

### Financing arrangements

14. 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. Up to end 2002, the Cyberport developer has contributed around \$3.84 billion to the Cyberport project.

15. After deducting the relevant expenses due and payable and contributing to a Development Maintenance Fund for up-keeping the shared facilities in the Cyberport, surplus proceeds from the sale of the residential units will be shared between the Government and the Cyberport developer according to their respective contribution to the project. The Administration has earlier on advised that 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.

16. As units in the Residential Portion have been put up for sale since February 2003, the Administration might be in a better position to advise members on the revenue aspects of the project, including the projected investment return. On the other hand, it should be noted that the rental income and any other income to be generated from the Cyberport Portion belong to the FSI companies.

17. 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

18. 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 000m<sup>2</sup>. As at end December 2002, over 95% of Phase CI, all the space in CIB and 30% of CIA had been taken up. The Administration would continue to update members on the tenancy position.

19. 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. To allay members' concern, the Administration reported that some 170 visits to the Cyberport had been arranged at the request of overseas participants of the International Telecommunication Union TELECOM Asia 2002 held in Hong Kong in December 2002. In view of the high level of interest shown by these participants, the Administration expressed optimism about the future take-up rate of offices in the Cyberport. Members had also been informed of a series of activities undertaken by the Administration to promote the Cyberport to overseas and Mainland companies, such as road shows and participation in IT-related exhibitions.

20. 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.

#### Institutional arrangements

21. The Panel noted 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 companies. The Administration agreed to review the composition of the Board of Directors of the FSI companies in due course.

22. The Hong Kong Cyberport Management Company Limited, one of the three FSI companies, announced in early June 2003 the appointment of 10 non-government directors to its management board in addition to the two government officials serving on the board, namely, the Permanent Secretary for Commerce, Industry and Technology (Communications and Technology) and the Permanent Secretary for Financial Services and the Treasury (Treasury). The relevant membership list is at **Annex C** of the Administration's paper (LC Paper No. CB(1) 2214/02-03(01)).

#### Related facilities

##### *Cyberport Institute*

23. 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 operation in the Cyberport in September 2003 and the initial intake is expected to be around 600 full-time students.

24. In response to some members' concern on 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.

#### *Digital Media Centre*

25. On the DMC proposed to be established in the Cyberport to provide common facilities for use by multi-media and digital entertainment content developers, some members questioned the role and mode of operation of the DMC. Noting that facilities similar to the DMC were currently available at certain tertiary institutions, some members were concerned whether the establishment of DMC in the Cyberport would lead to duplication of resources. Moreover, if the DMC would provide its services free of charge or at a low cost, there might be pressure on other service providers to reduce their charges at the expense of their viability. Members reiterated their concern that the Government should not seek to compete with the private sector for business activities.

26. According to the Administration, as there were only a few start-up companies specializing in animation softwares and games production, a critical mass had not yet been formed in Hong Kong. The main objective of the DMC was to provide assistance to small start-up companies which might lack the capital and resources to acquire the necessary hardware and software to take forward their business plans. Instead of serving academic purposes, the DMC would cater for the commercial needs of the industry. The DMC would take a cautious approach in setting the level of fees for its services such that private operators could remain competitive. The Administration assured members that it was mindful of the need to stay clear from competing with private-sector establishments and to protect the intellectual property rights of the clients.

**Latest position**

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

Council Business Division 1  
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