

Op-ed by John C Tsang
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Why not give Cyberport a Chance?

Let us examine the allegations regarding the “transfer of benefits”.

Recent comments on Cyberport have resorted largely to slogans. There is a need to take a close look at history, and put forward, as far as possible, the facts of the case so that the general public can make a sensible judgment.

I would like to explain that back in April 1999, the Government presented two development options on Cyberport and related financial analyses to the then Legislative Council (LegCo) for members' reference. These two options concerned proposals put forward by PCCW and a group of developers. LegCo was supportive of the development of Cyberport, and approved the \$1.1 billion funding application for the Cyberport infrastructural works.

Those engaged in business would probably agree that no sensible businessman would invest in a project if he is not allowed to make a reasonable profit. In the spirit of public private partnership, the Government always strives to create “win-win-win” propositions so that such projects would benefit not only Government and investors, but also the community. The key issue is whether gains to the public are sustainable and beneficial, and gains to the investors are reasonable and proportional to the investment.

As Cyberport developer, PCCW has to construct both the Cyberport and the residential portion, and bear all the risks involved. It also has to take the “market risk” resulting from property price movements, which directly affect its share of sales proceeds. The Project Agreement signed with the Government in 2000 offers PCCW no guarantee that it would make a profit.

Based on the latest forecast, we estimate that the total surplus proceeds available for distribution from 2004 to 2010 would be around \$17.6 billion, of which the Government would share about \$11.4 billion. We have also taken over the entire Cyberport portion. Taking the two portions together, the yearly Internal Rate of Return to the Government is estimated to be a respectable 9.43% to 11.2%.

Based on the same assumptions, PCCW would receive \$6.2 billion from the sales proceeds, which is \$1.84 billion above its capital contribution. It will probably have to wait until 2007 before it can recoup its investment.

Again, based on the same construction cost and average sale price of the residential portion, the estimated net return to PCCW (\$1.84 billion) will be significantly less than that calculated under the alternative proposal put forward by the real estate sector in 1999 (estimated to be \$8-9 billion).

The success of the residential portion, now known as Residence Bel-Air, has overshadowed the efforts made by its commercial counterpart, though the latter has spared no effort in promoting the Cyberport. The success of Cyberport is constantly judged by how much of its office space is filled, rather than the quality of its tenants. We could, of course, boost the occupancy by lowering the rent and relaxing the admission criteria. But we have not done so. We are sticking to our principles, and will continue to admit only companies that are engaged in information technology and multimedia content creation. The 33 companies that have moved into Cyberport are good examples. These included multinational corporations such as Microsoft, Sybase, overseas companies such as SafeNet, SmarTrust and ESRI, as well as local companies like CSL and Centro Digital which produced the special effects in the film, "Kung Fu Hustle".

Cyberport is an important asset to Hong Kong to further our objectives under the Digital 21 Strategy. Since 1999, we have come a long way towards attaining this objective. We have transformed a piece of disused and inaccessible land at Telegraph Bay into a lively modern community, enhancing the value of its neighbourhood and enriching the quality of life of Hong Kong.

It took Silicon Valley two decades to create a sustainable cluster of companies like Intel, Cisco and Apple. By comparison, Cyberport is only at its infancy stage. I have every confidence that Cyberport will prove its worth in the not-too-distant future. So why don't we, people of Hong Kong, give our Cyberport a chance?