

**Information Technology and Broadcasting Panel
and
Planning, Lands and Works Panel**

THE CYBERPORT PROJECT

Introduction

At the Information Technology and Broadcasting Panel held on 8 March 1999, the Information Technology and Broadcasting Bureau (ITBB) undertook to brief members on the details of the financial arrangements and bring members up-to-date on progress of the project. This paper sets out such information in detail. The opportunity is also taken to brief members on the need to carry out essential infrastructure works to support the Cyberport project, which will be the subject of a Public Works Sub-committee submission.

Background

2. The Financial Secretary announced in the 1999-2000 Budget Government's intention to proceed with the proposed Cyberport project. The Cyberport is an information infrastructure project which aims to create a strategic cluster of leading information technology and services (IT and IS) companies and a critical mass of professional talents in Hong Kong in the shortest possible time. By providing a high quality living and working environment, leading IT/IS companies as well as local and overseas talents could be attracted to, and retained in, Hong Kong. There will be common facilities, including the latest telecommunications backbone and equipment for the development of IT applications and IS for shared use by tenants. The Cyberport will be designed as a flagship project to put Hong Kong firmly on the global IT/IS map.

Pacific Century Group's Proposal

3. The idea of the Cyberport was presented to Government by Pacific Century Group (PCG) in mid-1998. PCG first suggested that Government should construct the Cyberport as a public works project and PCG would be willing to become an anchor tenant. However, the Government was unwilling to commit the substantial capital cost for developing the project without any upfront commitment from leading companies in the IT/IS sectors to move into the Cyberport. Also, Government would like to see the private sector taking a lead in the development of the project. PCG came up with a revised proposal in late 1998 which includes ancillary property development the revenues of which will be used to drive the project. The Cyberport portion which is intended for IT/IS activities will be constructed and handed to Government.

The Pacific Century Group

4. PCG is comprised of a set of privately held interests and the publicly listed Pacific Century Regional Developments. The Group has three main lines of business:

- financial and insurance services;
- technology based ventures; and
- property development.

5. PCG has entered into a 60:40 joint venture with Intel [Pacific Convergence Corporation (PCC)] to develop interactive digital services in the Asia-Pacific region. PCC expects to deliver broadband data services to the region's population using an integrated system of advanced telecommunications networks and related technologies. PCC expects to make capital investments of about US\$300 million (HK\$2.4 billion) over the next 6 years. With Hong Kong as its headquarters location, most of that investment would be made here. In addition, PCC expects to recruit at least 1000 people within 6 years (again most would be in Hong Kong) and the

cumulative expenditure on salaries and related costs would be around US\$350 million (HK\$2.8 billion). Most of PCC's capital investments and operational expenditure (including staff costs) would, of course, be new and incremental investments in Hong Kong and would stimulate the Hong Kong economy directly and through multiplier effects.

Evaluation by Government's Consultant

6. The Government engaged Arthur Andersen Business Consulting (AABC) in November 1998 to conduct a strategic assessment on the concept of a Cyberport in Hong Kong and the possible economic benefits to be brought about by such a project. Case studies were conducted on similar developments in USA, Germany and India to provide insight into experience elsewhere. AABC also conducted interviews with companies in the IT/IS sectors.

7. The main findings of the strategic assessment were :

- (a) A Cyberport would be an important element of the economic infrastructure, reinforcing the growth and development of technical talents, capital investment in the IT/IS sectors and communications technology and capability;
- (b) A Cyberport in Hong Kong should be an infrastructure for IT/IS companies, providing state-of-the-art data management and processing capabilities and equipment at shared cost to these companies;
- (c) The concept would be in line with Government's Digital 21 Information Technology Strategy;
- (d) High value-added economic activities will be created within the Cyberport

itself as a result of the clustering of talents, specialisation of information-intensive industries and availability of high quality office space and communications architecture at reasonable costs;

- (e) Spin-off benefits will be created for other economic sectors, including transaction services for trade and retail, e.g., e-commerce support services and information intensive industries, e.g., financial services;
- (f) International marketing advantage in enhancing Hong Kong's image and competitiveness as an international information services centre. A "flagship" project was important to attract talents and focus investors' attention to investment in IT/IS activities in Hong Kong.

8. The findings were presented to Government in December 1998. The Administration accepted that the project would produce economic benefits to Hong Kong and proceeded with intensive negotiations with PCG on the project scope, design and financial arrangements. In parallel, a second phase of the study was conducted by AABC to sound out potential users on the design and specifications proposed by PCG and their degree of interest in becoming tenants. The second phase confirmed IT/IS companies' broad agreement with the design and specifications proposed and strong interest by both local and overseas companies in becoming tenants. An executive summary of Phase 1 and Phase 2 of AABC's consultancy is at Annex A.

Outline Terms in the Letter of Intent

9. Government reached agreement with PCG on the broad framework for the development of the Cyberport in February 1999. The scope of the project is briefly described at Annex B. The main terms of the Letter of Intent signed with PCG are :

- (a) PCG would be responsible for the total construction cost of the Cyberport (both the Cyberport portion and the ancillary residential development), estimated to be \$13 billion. After allowing for project cashflow arising from the sale of flats in the ancillary residential development, the peak funding requirement on PCG would be about \$7 billion;
- (b) Revenues from the ancillary residential development will be used to drive the Cyberport project. After setting aside sufficient funds to complete the project and the setting up of a \$200 million Development Fund (to offset any operating deficit during the initial operating period and cover cost for replacement of common facilities), profits will be shared according to the respective capital contribution by both parties. Government's capital contribution will be the value of the land for the ancillary residential development at the time of grant of development right to PCG. PCG's capital contribution will be the outturn of the peak funding requirement;
- (c) PCG will be responsible for the design, construction, development and marketing of the Cyberport, including risks related to the financing and construction of the project. In this connection, PCG will provide :
- (i) a completion guarantee to Government that the project will be completed on time and all cost overrun will be PCG's responsibility;
 - (ii) a bank guarantee (or corporate guarantee of the same quality), at any point before the completion of the whole project, to ensure the availability of six months anticipated cashflow; and
 - (iii) a bank guarantee (or corporate guarantee of the same quality) if PCG creates encumbrances on the development right in raising financing for the project. In addition, such debt will not be counted towards PCG's capital contribution for the purposes of profit sharing; and
 - (iv) A take-up guarantee by PCG to take up extra space if the Cyberport

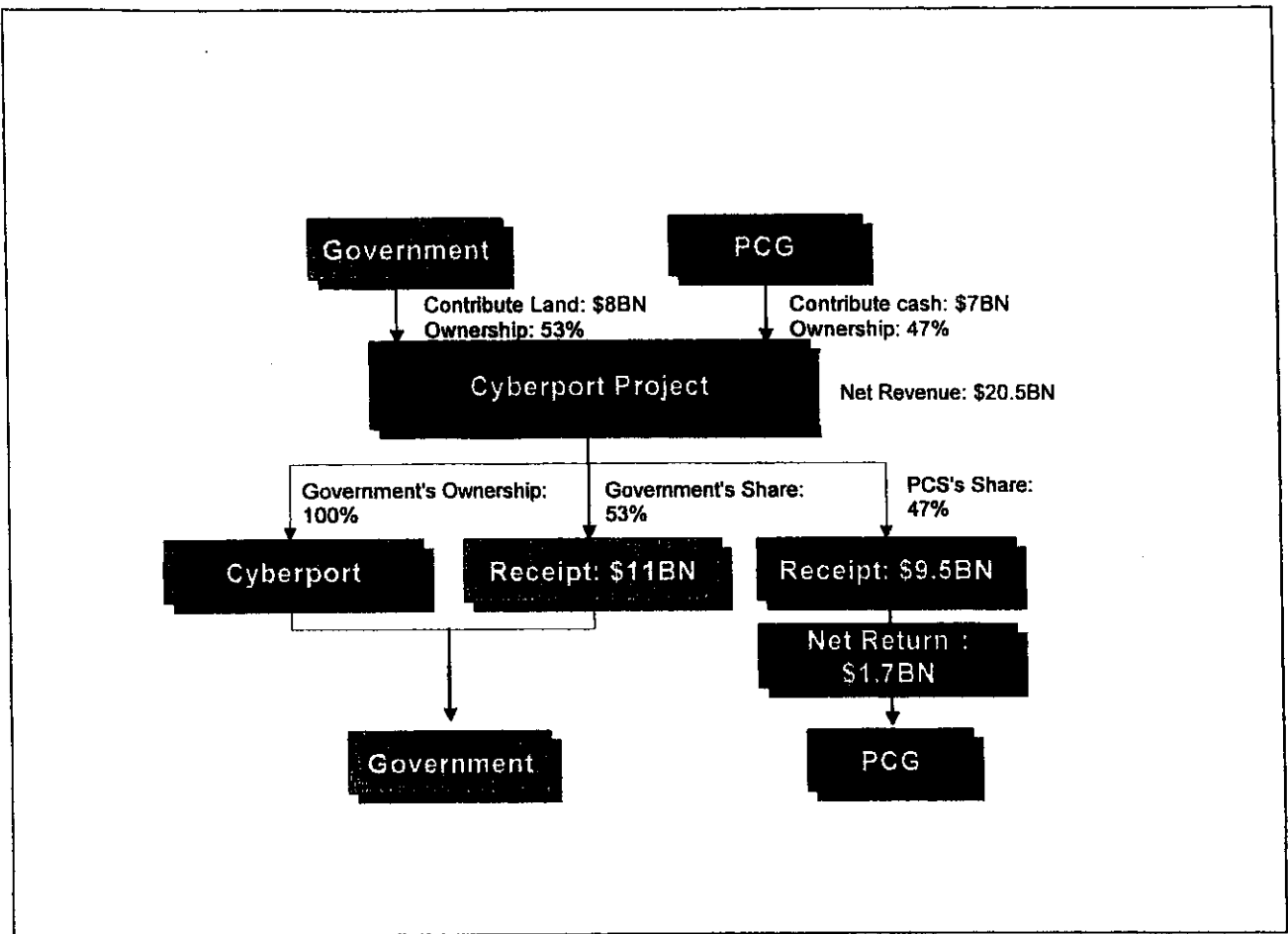
portion does not attract tenants as envisaged. PCG would occupy at least 7000 sq m of office space in Phase I, and if the remaining space of the Cyberport portion was not taken up by other tenants 36 months after completion of construction, PCG will take up not less than 20% and not more than 50% of the total office space within the first 5 years of the completion of Phase I.

- (d) PCG may not assign or transfer its right to design, construct, develop and market the Cyberport to any person without the prior approval of Government except in the case of an assignment or transfer to a majority-owned subsidiary of PCG. This company will be subject to the same restrictions as PCG was in which event PCG must guarantee all the obligations assumed by such subsidiary.

Summary Financial Analysis

Current Financial Arrangement

10. The following diagram shows the financial arrangement of the Letter of Intent between the Government and PCG. As shown below, assuming a residential sales price of HK\$6,000 per square foot, valuation of the land for the ancillary residential portion at HK\$8,000MM and PCG's capital contribution of \$6,959MM, the Government and PCG's profit sharing percentage will be 53% and 47%, respectively.



11. Under this assumption, the Government will receive \$10,970MM of future cash distribution from the Project plus 100% ownership of the Cyberport Portion. PCG will receive its proportional future cash distribution of \$9,543MM. After recouping its capital contribution of \$6,959MM, PCG will have a gross return of \$2.584 billion. Assuming a debt to equity ratio of 60:40 (debt raised on PCG's own balance sheet), PCG's net return will be in the region of \$1,670MM net of financing costs.

Risk and Return Analysis

12. The following diagram shows the risk and return/receipt profile for the Government under various residential sale price assumptions (assuming a land premium of \$8 billion). Figures in nominal value:

Risk Analysis

Type of Risk	Government's Risk	PCG's Risk
• Construction Risk	NIL	Borne by PCG ¹
• Cost Overrun Risk	NIL	Borne by PCG ¹
• Financing Risk	NIL	Borne by PCG
• Default Risk	NIL ²	Borne by PCG
• Market Risk	Shared with PCG ³	Shared with Government ³

Notes: (1) PCG is committed to completing the Cyberport within the schedule and to the specification agreed with Government. Cost overrun will be borne by PCG.

(2) The Government will retain full control of the land and the development right if PCG defaults. In the event that the Government allows PCG to encumber the development right, PCG will be required to provide a bank guarantee (or a corporate guarantee of the same quality) on the bank loan. And, such funds will not be counted towards PCG's capital contribution for the purpose of profit sharing.

(3) This refers to the sales price of flats in the residential portion. Government will only share part of the downside risk (because Government will get the Cyberport regardless of market conditions) but fully share the upside gain with PCG.

Receipt/Return Analysis

Sales Price ¹	Government's Receipt	PCG's Net Return ²
\$4,000	\$6,187MM + Cyberport	-\$2,969MM
\$5,000	\$8,570MM + Cyberport	-\$596MM
\$6,000	\$10,970MM + Cyberport	\$1,668MM
\$7,000	\$13,395MM + Cyberport	\$3,822MM
\$8,000	\$15,845MM + Cyberport	\$5,913MM

Notes: (1) Sales price in HK\$ per square foot; expressed in 1999 prices.

(2) PCG's net return is after financing cost (assuming no debt at project level and 60% : 40% debt to equity ratio at corporate level; i.e., approximately \$3,000 million equity and \$4,000 million debt; interest cost is assumed to be 9%).

13. As shown above, the Government's downside risk (except market risk) in the Cyberport Project is all borne by the private sector. At the same time, the Government will share any upside gains in the residential portion.

14. In summary, given the above assumptions, not only does the Government receive the Cyberport Portion "risk-free", it will also share 53% of the profit from the residential portion without taking on additional risks under this arrangement.

Detailed Financial Projections

Key Assumptions

15. Based on the terms set out in the Letter of Intent, the Government conducted detailed discussions with PCG and came to an agreement for the basis on which the detailed legal documents will be drafted. The agreed input assumptions are as follows :

(a) Government's equity
contribution

for 1/3rd of 60
AGT

Based on land premium assessed at the time of grant of the development right. We expect that this will take place immediately after Town Planning Board's approval for the rezoning of the Telegraph Bay Outline Zoning Plan, in around 12 to 15 months' time. While the actual value cannot be determined at this stage, estimates from \$5.5 billion to \$8.5 billion have been used in the analysis.

(b) PCG's capital contribution

7.5 billion

Approximately \$7 billion. This can be made up of both equity and funds raised by PCG through financing. However, should PCG raise financing through encumbering the development right of the ancillary residential development, such funds shall not be counted towards PCG's capital contribution for the purpose of profit sharing.

(c) Construction cost (excluding any interest charges and inflation)

- (i) Cyberport portion \$5 billion
- (ii) Ancillary residential \$8.7 billion
 development

These are agreed estimates by the Government and PCG. These estimates are being refined for both sides to agree on a final figure for inclusion in the project agreement. The detailed design and specifications will be drawn up by PCG and agreed by the Government. The tendering procedures for the construction and procurement contracts will also need to be agreed to by the Government.

(d) Profit distribution

Profits will be shared between the Government and PCG according to their respective capital contribution. (According to the current assumptions and assuming that PCG does not raise debt by encumbering the development right, the Government and PCG will share profits as per the following range of ratios: from 44% : 56%, respectively (i.e., \$5.5 billion of land value) to 56% : 44%, respectively (i.e., \$8.5 billion of land value), depending on the assumed value of the land premium.)

(e) Sales price of residential flats

While the final sales price cannot be determined at this stage, financial projections according to various scenarios, from \$4,000 to \$8,000 per square foot, have been used in the analysis.

(f) Financing arrangement

PCG will be responsible for the financing arrangements. The mix of equity and debt in their capital contribution is left to PCG as they would need to come up with the optimum arrangements based on market conditions at the time when financing is arranged. However, a 60% : 40% debt to equity ratio has been used in the analysis, which will translate into approximately \$4,000MM of debt and \$3,000MM equity.

(g) Interest Cost

Assumed to be 9% per annum for PCG.

Financial Analysis – Government's Return

16. According to the above assumptions, the Government's profit sharing percentage and returns are set out below, against different scenarios of land value for the ancillary residential development:

Land Value	Sales Price	Sales Price	Total Distr. Revenue	Gov't Distr.	Gov't Distr. ²	Gov't IRR ³
(\$MM)	(\$ / sq. ft.) (Today's Price)	(\$ / sq. ft.) (Adjusted for inflation up to the time of sale) ¹	(\$MM)	(%)	(\$MM)	(%)
\$5,500	\$4,000	\$4,090 - \$4,956	\$11,679	43.6%	\$10,098	9.7%
	\$5,000	\$5,112 - \$6,195	\$16,100	43.9%	\$12,067	13.2%
	\$6,000	\$6,134 - \$7,343	\$20,513	44.1%	\$14,055	16.3%
	\$7,000	\$7,157 - \$8,673	\$24,930	44.4%	\$16,068	19.1%
	\$8,000	\$8,179 - \$9,912	\$29,349	44.7%	\$18,105	21.7%
\$6,500	\$4,000	\$4,090 - \$4,956	\$11,679	47.8%	\$10,581	7.5%
	\$5,000	\$5,112 - \$6,195	\$16,100	48.0%	\$12,735	11.1%
	\$6,000	\$6,134 - \$7,343	\$20,513	48.3%	\$14,906	14.3%
	\$7,000	\$7,157 - \$8,673	\$24,930	48.5%	\$17,103	17.1%
	\$8,000	\$8,179 - \$9,912	\$29,349	48.8%	\$19,324	19.7%
\$7,500	\$4,000	\$4,090 - \$4,956	\$11,679	51.4%	\$10,999	5.7%
	\$5,000	\$5,112 - \$6,195	\$16,100	51.6%	\$13,310	9.3%
	\$6,000	\$6,134 - \$7,343	\$20,513	51.9%	\$15,640	12.5%
	\$7,000	\$7,157 - \$8,673	\$24,930	52.1%	\$17,995	15.3%
	\$8,000	\$8,179 - \$9,912	\$29,349	52.4%	\$20,374	17.9%
\$8,000	\$4,000	\$4,090 - \$4,956	\$11,679	53.0%	\$11,187	4.8%
	\$5,000	\$5,112 - \$6,195	\$16,100	53.2%	\$13,570	8.5%
	\$6,000	\$6,134 - \$7,343	\$20,513	53.5%	\$15,970	11.7%
	\$7,000	\$7,157 - \$8,673	\$24,930	53.7%	\$18,395	14.5%
	\$8,000	\$8,179 - \$9,912	\$29,349	54.0%	\$20,845	17.1%
\$8,500	\$4,000	\$4,090 - \$4,956	\$11,679	54.5%	\$11,363	4.1%
	\$5,000	\$5,112 - \$6,195	\$16,100	54.7%	\$13,812	7.7%
	\$6,000	\$6,134 - \$7,343	\$20,513	55.0%	\$16,279	10.9%
	\$7,000	\$7,157 - \$8,673	\$24,930	55.2%	\$18,770	13.8%
	\$8,000	\$8,179 - \$9,912	\$29,349	55.5%	\$21,286	16.3%

Notes: (1) Pre-sale periods for Phase I - V start in consecutive years beginning 2001Q4.

(2) Include the value of Cyberport Portion worth \$5 billion (valued at cost).

(3) The Government's Internal Rate of Return ("IRR") is calculated based on the cost of the forgone land premium, infrastructure cost, receipt of the Cyberport Portion Phase I-III by 2003 (i.e., valued at cost) and the associated Development Fund (i.e., \$200MM), plus the Government's share of the distributable revenues from the sales of ancillary residential development.

17. As shown in the table above, the financial return of the Government is sensitive to the residential sales prices. A higher sales price will increase the financial return to the Government. In addition, higher revenues from residential sales will lower the net funding requirements of the construction and thus also lower PCG's profit sharing percentage. This in turn raises Government's profit sharing percentage.

18. The value of the ancillary residential land will also affect the profit sharing percentage. The higher the land value, the higher Government's equity contribution for the purposes of the calculation of profit sharing.

19. Other key variables that can significantly affect the financial returns and profit sharing percentages of the respective parties are: (i) the achievability of the target sales programme (i.e., timing and percentage of apartments that can be sold during pre-sale, at completion and post-completion), and (ii) construction timing and cost.

Government's Risk Mitigants in the Project

20. The Government has taken the following project risks into consideration when structuring its financial arrangement with PCG under the Letter of Intent:

(i) Design/Project Management Risk

The Government has significant control and influence on the project, which includes, but is not limited to, the following: (a) Government's approval required on project specification and construction, (b) provision of timely audited financial statements, (c) segregation of accounts by PCG, (d) establishment of a Development Fund before any profit distribution, (e) Government's approval required for any early distribution of profit, (f) change of control and other restrictive covenants on PCG, and (g) Government's right to sell its deemed equity interest in the project to third parties.

(ii) *Construction and Cost Overrun Risk.*

The Government has minimised this risk by obtaining PCG's agreement to give a completion and performance guarantee for the whole project. As such, PCG will guarantee the timely completion of the Cyberport and the ancillary residential project according to a pre-determined timetable and a fixed price, and will guarantee completion to pre-agreed specifications. Therefore, the risk is entirely borne by PCG.

(iii) *Financing Risk.*

PCG is responsible for all funding needs of the project. In order to ensure that the project is covered by adequate financial resources, the Government has procured PCG's agreement to give the following guarantees: (a) bank guarantee (or a corporate guarantee of the same quality) of the forecast cash requirement of the project for six months in advance at any one time, and (b) bank guarantee (or a corporate guarantee of the same quality) if PCG creates encumbrances on the development right in raising financing for the project. Therefore, the risk is entirely borne by PCG.

(iv) *Default/Completion Risk.*

To further protect the Government's assets in case the project participant defaults or changes, the Government has imposed the following restrictive covenants on PCG: (a) Protection from transfer or assignment of the development right to any person other than a majority-owned subsidiary of PCG, which is not allowed unless prior approval from the Government is obtained. This is further subject to the subsidiary undertaking to bear PCG's full obligations and a parent company guarantee from PCG to ensure performance by the subsidiary, and (b) Protection from a change of control of PCG. In the event that there is a

default, the Government will retain full control of the land and the development right, provided that the development right is not encumbered for borrowing purposes. In the event the Government allows PCG to encumber the development right, a bank guarantee (or a corporate guarantee of the same quality) is required on the bank loan.

(v) *Market Risk.*

On the Cyberport portion, the Government has some downside protection on occupancy rates due to PCG's take-up guarantee. On the residential side, the Government shares part of the market risk.

Financial Analysis – PCG's Return

21. According to the above assumptions, PCG's internal rate of return ("IRR"), profit sharing percentage and return are set out below, against different scenarios of land value for the ancillary residential development.

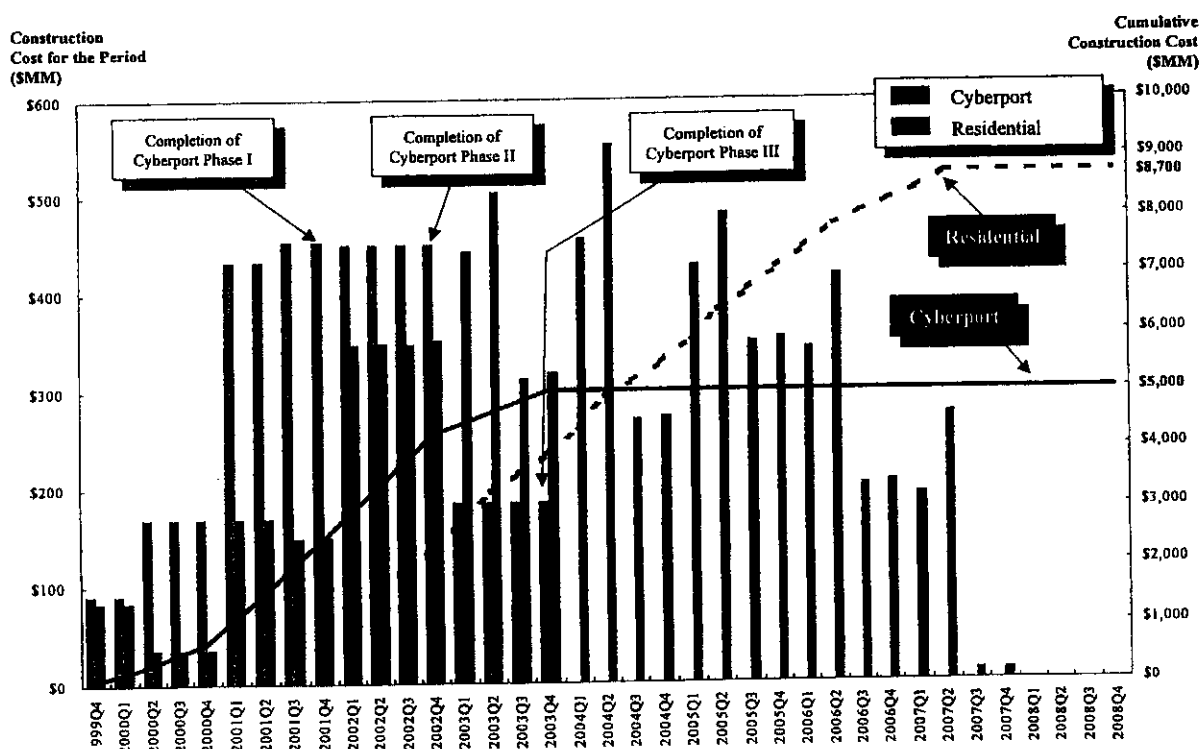
Land Value	Sales Price	Sales Price	Total Distr. Revenue	PCG's Distr.	PCG's Distr.	PCG's Net Return ²	PCG's IRR ³
(\$MM)	(\$ / sq. ft.) (Today's Price)	(\$ / sq. ft.) (Adjusted for inflation up to the time of sale) ¹	(\$MM)	(%)	(\$MM)	(\$MM)	(%)
\$5,500	\$4,000	\$4,090 - \$4,956	\$11,679	56.4%	\$6,581	-\$1,768	-10.2%
	\$5,000	\$5,112 - \$6,195	\$16,100	56.1%	\$9,033	\$995	4.6%
	\$6,000	\$6,134 - \$7,343	\$20,513	55.9%	\$11,458	\$3,633	14.9%
	\$7,000	\$7,157 - \$8,673	\$24,930	55.6%	\$13,862	\$6,184	23.5%
	\$8,000	\$8,179 - \$9,912	\$29,349	55.3%	\$16,245	\$8,659	31.3%
\$6,500	\$4,000	\$4,090 - \$4,956	\$11,679	52.2%	\$6,097	-\$2,301	-14.4%
	\$5,000	\$5,112 - \$6,195	\$16,100	52.0%	\$8,365	\$288	1.4%
	\$6,000	\$6,134 - \$7,343	\$20,513	51.7%	\$10,606	\$2,759	11.7%
	\$7,000	\$7,157 - \$8,673	\$24,930	51.5%	\$12,827	\$5,138	20.2%
	\$8,000	\$8,179 - \$9,912	\$29,349	51.2%	\$15,025	\$7,437	27.7%
\$7,500	\$4,000	\$4,090 - \$4,956	\$11,679	48.6%	\$5,680	-\$2,762	-18.8%
	\$5,000	\$5,112 - \$6,195	\$16,100	48.4%	\$7,790	-\$321	-1.6%
	\$6,000	\$6,134 - \$7,343	\$20,513	48.1%	\$9,873	\$2,006	8.9%
	\$7,000	\$7,157 - \$8,673	\$24,930	47.9%	\$11,935	\$4,235	17.2%
	\$8,000	\$8,179 - \$9,912	\$29,349	47.6%	\$13,975	\$6,386	24.5%
\$8,000	\$4,000	\$4,090 - \$4,956	\$11,679	47.0%	\$5,492	-\$2,969	-21.2%
	\$5,000	\$5,112 - \$6,195	\$16,100	46.8%	\$7,530	-\$596	-3.1%
	\$6,000	\$6,134 - \$7,343	\$20,513	46.5%	\$9,543	\$1,668	7.5%
	\$7,000	\$7,157 - \$8,673	\$24,930	46.3%	\$11,534	\$3,822	15.8%
	\$8,000	\$8,179 - \$9,912	\$29,349	46.0%	\$13,504	\$5,913	23.0%
\$8,500	\$4,000	\$4,090 - \$4,956	\$11,679	45.5%	\$5,316	-\$3,163	-23.6%
	\$5,000	\$5,112 - \$6,195	\$16,100	45.3%	\$7,288	-\$852	-4.6%
	\$6,000	\$6,134 - \$7,343	\$20,513	45.0%	\$9,234	\$1,349	6.2%
	\$7,000	\$7,157 - \$8,673	\$24,930	44.8%	\$11,160	\$3,437	14.4%
	\$8,000	\$8,179 - \$9,912	\$29,349	44.5%	\$13,063	\$5,469	21.6%

Notes: (1) Pre-sale periods for Phase I - V start in consecutive years beginning 2001Q4.

(2) PCG's net return is after financing cost (assuming no debt at project level and 60% : 40% debt to equity ratio at corporate level; i.e., approximately \$4,000MM debt and \$3,000MM equity; interest cost is assumed to be 9%).

(3) PCG's IRR represents the internal rate of return of PCG's investment in the Cyberport Project net of financing cost.

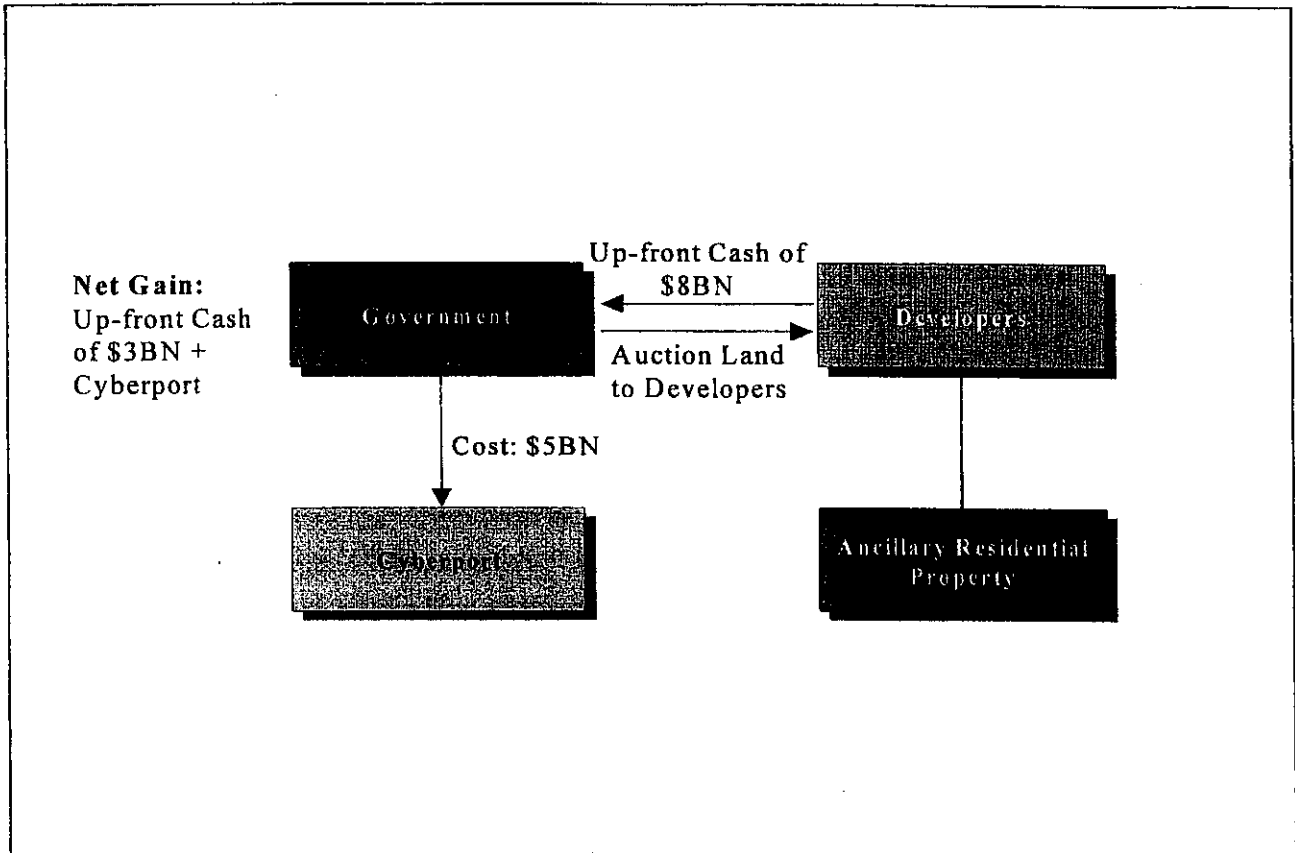
22. The following graph shows the construction cycle of the Cyberport Project. As shown in the graph, a significant portion of the construction cost is spent on building the Cyberport Portion before the construction of the residential portion. In addition, no profit distribution is allowed until the Cyberport Portion (Phase I to III) is scheduled to complete by 2003Q4.



Therefore, a significant portion of PCG's capital contribution in the earlier years of the construction period is first used to construct the Cyberport Portion.

Property Developer's Proposal

23. The following diagram shows the alternative proposal put forward by a group of companies (most likely property developers) through their lawyers (the "Developer's Proposal"):



Under the Developer's Proposal, the Government will receive an up-front land premium, at a reserve price of \$8,000MM, from property developers by auctioning off the ancillary residential property. The Government will then use \$5,000MM for the construction of the Cyberport Portion. The net proceeds to the Treasury will be \$3,000MM of up-front cash.

24. Using the same assumptions as in paragraph 12, the following table shows the risk and return/receipt profile for the Government under the Developer's Proposal. Figures are in nominal value:

Risk Analysis – Cyberport Portion

Type of Risk	Government's Risk	Developer's Risk
• Construction Risk	Borne by Government	NA
• Cost Overrun Risk	Borne by Government	NA
• Financing Risk	NIL ¹	NA
• Market Risk	NA	NA

Notes: (1) Government receives an up-front cash amount of \$8 billion, of which \$5 billion will be used to construct the Cyberport Portion

Receipt/Return Analysis

Sales Price ¹	Government's Receipt	Developer's Net Return ²
\$4,000	\$3,000MM Cash + Cyberport	-\$1,084MM
\$5,000	\$3,000MM Cash + Cyberport	\$3,811MM
\$6,000	\$3,000MM Cash + Cyberport	\$8,504MM
\$7,000	\$3,000MM Cash + Cyberport	\$13,092MM
\$8,000	\$3,000MM Cash + Cyberport	\$17,625MM

Notes: (1) Sales price in HK\$ per square foot; expressed in 1999 prices.

(2) Developer's net return is after financing cost (assuming same amount of equity in the project, i.e., approximately \$3,000 million equity, and the rest financed by borrowing at 9% interest cost).

N.B. Valuation of the land for the ancillary residential portion at HK\$8,000MM.

Under this scenario, the Government's upside gain will be capped at a fixed amount of \$3.0 billion (i.e., \$8 billion land premium net of \$5 billion of Cyberport cost). At the same time, all risks associated with the Cyberport Portion will be borne by the Government.

Assessment

25. The following table compares the risk and return/receipt profile of the Government between the current arrangement and the Developer's Proposal. In order to evaluate the receipt under the two proposals on a comparable basis (i.e., \$8 billion

of up-front cash under Developer's Proposal versus the receipt of future residential sales revenues under the current arrangement), we have adjusted the Government's receipt under the current arrangement by discounting the future stream of residential sales profit received by the Government (including the provisioning of the Development Fund) to a present value using the Government's cost of fund (i.e., 6.5%). The results are as follows:

Government's Risk in the Cyberport Portion

Type of Risk	Current Arrangement	Developer's Proposal
• Construction Risk	NIL	Borne by Government
• Cost Overrun Risk	NIL	Borne by Government
• Financing Risk	NIL	NIL
• Market Risk	NA	NA

Government's Receipt in Addition to the Cyberport Portion

Sales Price ¹	Current Arrangement ²		Difference ³
	(Present value)	Developer's Proposal	
\$4,000	\$4,233MM	\$3,000MM	+\$1,233MM
\$5,000	\$5,862MM	\$3,000MM	+\$2,862MM
\$6,000	\$7,506MM	\$3,000MM	+\$4,506MM
\$7,000	\$9,164MM	\$3,000MM	+\$6,164MM
\$8,000	\$10,837MM	\$3,000MM	+\$7,837MM

Notes: (1) Sales price in HK\$ per square foot; expressed in 1999 prices.

(2) The Government's receipt is adjusted by discounting the future stream of residential sales revenues received by the Government (including the provisioning of the Development Fund) to a present value by the Government's cost of fund (i.e., 6.5%).

(3) Difference equals to the difference between the Government's receipt under the current arrangement and under the Developer's Proposal.

N.B. Valuation of the land for the ancillary residential portion at HK\$8,000MM.

26. Comparing the two proposals, the financial arrangement under the current arrangement yields a significantly greater receipt and, at the same time, a lesser risk to

the Government. This is an assessment based purely on financial terms. We must bear in mind that Government's objective in developing the Cyberport is to ensure that a cluster of top IT/IS companies and a pool of talents be created in the shortest possible time. We believe that the current arrangements meet this objective and will provide the Government with a reasonable rate of return.

27. The following table further shows that PCG's return is significantly less than that of a developer under the Developer's Proposal (assuming the same construction and in nominal value).

Sales Price ¹	PCG's Net Return ²	Developer's Net Return ³	Difference ⁴
\$4,000	-\$2,969MM	-\$1,084MM	-\$1,885MM
\$5,000	-\$596MM	\$3,811MM	-\$4,407MM
\$6,000	\$1,668MM	\$8,504MM	-\$6,836MM
\$7,000	\$3,822MM	\$13,092MM	-\$9,270MM
\$8,000	\$5,913MM	\$17,625MM	-\$11,712MM

Notes: (1) Sales price in HK\$ per square foot; expressed in 1999 prices.

(2) PCG's net return is after financing cost (assuming no debt at project level and 60% : 40% debt to equity ratio at corporate level; i.e., approximately \$4,000MM debt and \$3,000MM equity; interest cost is assumed to be 9%).

(3) Developer's net return is after financing cost (assuming same amount of equity in the project i.e., approximately \$3,000MM equity, and the rest financed by borrowing at 9% interest cost).

(4) Difference equals to the PCG's Net Return minus Developer's Net Return.

N.B. Valuation of the land for the ancillary residential portion at HK\$8,000MM.

Planning Considerations

28. A request was made to the Town Planning Board for rezoning of the site from "Residential" and "Government/Institution/Community" zones to mainly "Other Uses (Cyberport)" zone. The request was considered by the Metro Planning Committee of the Town Planning Board on 26 March 1999, and agreed by the full Town Planning Board on 9 April. The draft Pokfulam Outline Zoning Plan (OZP) incorporating the rezoning proposal will be gazetted on 30 April 1999 under the Town Planning

Ordinance. Subject to resolution of objections, if any, raised by members of the public, we expect the draft OZP to be submitted for the consideration of the Executive Council in early 2000.

29. The overall design aims to provide a low density development with a pleasant environment comparable with similar developments overseas. Different building height limits have been set for each sub-zone to ensure that the visual corridors of the neighbouring buildings are reasonably preserved. For example, in the design the highest building fronting Baguio Villas is only 13 storeys high, so that the majority of residents in Baguio Villas (which is located on a relatively high level) can continue to enjoy the sea view. The stepping up principle from the sea to inland is generally followed in designing the building layout so as to prevent the undesirable wall effect.

30. A sizeable portion of the site (40 %) will be developed into "green areas". A landscaped promenade has been planned along the coast forming a district open space system joining up with the Sandy Bay recreation area in the north and the proposed Waterfall Bay Park in the south. Conceptually there is potential to develop a retail and entertainment pier and a small marina along the waterfront. However, a detailed feasibility study, taking into consideration all the environmental and transport issues, is required at a later stage if such a concept is to be taken forward.

31. Under the current plan, the Cyberport will provide five office towers, a hotel, a Cyber Mall and some 3000 residential units (average size: 135 sq m per unit) in the form of houses, mid and high-rise flats. It is estimated that around 10,000 residential population and 12,000 working population will be accommodated in the Cyberport after its completion in 2007.

32. The focus of the Cyberport is an elliptical Cyber Mall situated near the proposed Route 7 interchange. It will be a commercial and exhibition area in a hi-tech

setting to provide a showcase for products of the Cyberport and to provide interface with the public. There is also a plan to establish educational facilities for information technology in the Mall so that students and members of the public may benefit through active participation in the Cyberport activities.

33. In terms of transport access, the site will be serviced by an access road leading from Victoria Road to the southern part, and another access road leading from Sha Wan Drive to the northern part of the reclamation. The layout plan also caters for connection with the planned Route 7, with an interchange at the northern part of the reclamation. A traffic impact assessment (TIA) has been conducted for the proposed Cyberport development. It reveals that the proposed Cyberport development would not create adverse traffic impact on the surrounding road network. The traffic flow generated by the Cyberport offices would be opposite to the general flow pattern (ie., during the morning peak hours when most people are travelling from the Southern District to the Western and Central District, many workers in the Cyberport travel in the opposite direction, and vice versa for the evening peak hours). The traffic flow pattern and the capacity of 16 critical junctions have been analysed. The TIA concludes that with the recommended improvement measures for 5 road junctions in place, all 16 critical junctions within the study area would operate within the design capacity in year 2011, even without Route 7. Transport Department already plans to carry out the recommended junction improvement works.

Environmental Considerations

34. An Environmental Impact Assessment (EIA) Report regarding the infrastructural works for the proposed development at Telegraph Bay has been prepared in accordance with the requirements of the EIA study brief and the Technical Memorandum on EIA process. The potential impacts on noise, air and water quality, sewage, ecology and landscape have been critically examined in accordance with the Technical Memorandum on EIA process. In order to preserve the environment, the

report recommends a number of mitigation measures, including erection of roadside noise barriers, application of low noise surfacing materials for some sections of roads, use of quiet type construction equipment, watering of unpaved roads in the construction stage, construction of an on-site sewage treatment plant with deodorisation system and associated submarine outfall, adequate planting and quality landscaping in open areas, etc. With these mitigation measures in place, there will be no major impact on the environment and the residual impact, if any, will be controlled to an acceptable level. In developing the site, the Government will ensure that all these mitigation measures will be carried out in a timely manner.

35. The EIA report was considered by the EIA Sub-Committee of the Advisory Council on the Environment (ACE) on 29 March 1999 and endorsed by the ACE Full Council on 26 April 1999.

Government's Infrastructure Works

36. The Cyberport is located at Telegraph Bay. The site comprises mainly the Telegraph Bay reclamation and the headland between the Waterfall Bay and the Telegraph Bay (now being used as a temporary golf driving range for the Waterfall Bay Golf Centre). At present there is no road access to the reclamation area.

37. To facilitate the development of the Telegraph Bay, it is necessary for the Government to form the land to a proper condition and to build the basic infrastructure, including the access roads to and within the site, sewage treatment facilities, public transport interchange, etc. The construction of these infrastructural works is the responsibility of the Government irrespective of whether the development is for a Cyberport or for private housing.

38. We shall make a submission to the Public Works Sub-committee (PWSC) and Finance Committee (FC) of Legislative Council to seek funds for these essential

infrastructural works. Because of site constraints and programming considerations, construction of the essential infrastructure works, except the northern access road (for connection from the site to Sha Wan Drive and which is not essential to the opening of the Cyberport), will be entrusted to PCG at a cost of \$ 791 million (at December 98 prices). A note explaining the works involved is at Annex C.

39. We shall gazette under the Roads Ordinance the construction of two access roads leading to the site and some internal roads, and gazette under the Foreshore and Seabed Ordinance the construction of a submarine outfall (as part of the sewage treatment works) and two temporary jetties also on 30 April 1999.

Land matters

40. We are still studying the best arrangement for the disposal of land for the Cyberport development. As co-operation with PCG involves the granting of development rights over the ancillary residential development, our present thinking is that a special purpose vehicle may need to be established under the Financial Secretary Incorporated to hold the title of the residential land and to grant the development right to PCG. If so, we will need to make a submission to the Executive Council in due course on a land grant to this special purpose vehicle.

Financial and Staffing Implications

41. The financial implications for Government in developing the Cyberport will be in the form of land premium forgone in the ancillary residential development. The land value for this portion has been estimated earlier at about \$5.5 billion. However, the value of the land, to be assessed according to market price at the time of grant of development right, will be invested as Government's equity contribution towards the project and, depending on the sales price of residential flats, a return will be earned on the investment. In addition, the Government will get back the completed Cyberport portion (the construction cost of which is currently estimated at about \$5 billion) and

the future rental stream.

42. A small team, headed by an Administrative Officer at Staff Grade B level and supported by IT, engineering and executive staff, will be set up in the Information Technology and Broadcasting Bureau, to oversee the implementation of the project and set up the institutional arrangements for the future management and administration of the Cyberport. We will need Finance Committee approval for the establishment of supernumerary posts for this team of staff.

Economic Implications

43. While the range of benefits is not readily quantifiable, the Cyberport will bring new economic activities as a result of the clustering of quality tenants and professional talents, as well as specialisation of information-intensive industries through the availability in the Cyberport of premium communications architecture at a reasonable cost. There will also be spin-off benefits in the following economic sectors : transaction services for trade and retail; information services; software engineering such as web-based multi-media software development and applications; and other information intensive industries, e.g., financial services. In addition, there will be marketing advantages both locally and overseas in enhancing Hong Kong's competitiveness as a regional hub for the Information Age.

Next Steps

44. We have obtained agreement in principle from the Chief Executive in Council to proceed with the drawing up of legal documentation with PCG. We hope to conclude the drafting by summer so that planning, design and construction works by PCG can begin as soon as possible.

45. We will also liaise closely with the anchor tenants and other companies which have expressed interest in becoming tenants at the Cyberport. Detailed specifications

are being drawn up and anchor tenants and interested companies will be consulted to ensure that the Cyberport meets their requirements. As at 21 April 1999, 34 companies have registered interest in becoming tenants, in addition to the eight anchor tenants.

46. Separately, we are considering the institutional arrangements for the implementation stage, including the setting up of selection procedures for applicants. We will brief members regularly on progress.

Information Technology and Broadcasting Bureau

29 April 1999

Arthur
Andersen



Business Consulting

Executive Summary on:

Phase 1: Strategic Assessment of the
Proposed Cyberport
Development in Hong Kong
(December 1998)

Phase 2: Discussions with Potential
Cyberport Users (March 1999)

For

The Government of the Hong Kong
Special Administrative Region

March 1999

PHASE 1

PHASE 1

I. *Background*

The Information Technology and Broadcasting Bureau (hereinafter "the ITBB") of the Government of the Hong Kong Special Administrative Region (hereinafter "the Government") has received a proposal from a private sector proponent regarding the potential development of a cyberport in Hong Kong. The proposal envisages that the Government will make available an area of 29 hectares at Telegraph Bay for the development of a cyberport. According to the proposal, the Government will also be responsible for building the infrastructure and superstructure required for such development.

As a first step in the evaluation of such proposal, the Government has engaged Arthur Andersen Business Consulting (hereinafter "AABC") to conduct a strategic assessment of developing a cyberport in Hong Kong, having regard to global developments in the information service industry.

The objective of this preliminary assessment (the "Phase 1 Project") is to determine whether a cyberport development should be pursued in the context of Hong Kong. It is understood that the Phase 1 Project results are not intended to be conclusive, and that the Government would need to perform more detailed studies before deciding whether and how to proceed with the proposed development.

II. *Case Studies - Investment and Benefits of Cyberports*

To facilitate the strategic assessment of developing a cyberport in Hong Kong, case studies have been performed in November and December 1998 to obtain insights from the experience of similar developments in other countries. After a broad-brush examination of such developments, three overseas developments have been selected for more in-depth assessment, namely: the Software Technology Park at Bangalore (India), the Staten Island Teleport at New York (the United States), and the Focus Teleport at Berlin (Germany).

The following table highlights some of the key characteristics, success factors as well as achievements/benefits of the three selected developments:

<ul style="list-style-type: none"> • Inclusion of private sector investment/funding • Real estate-based • Shared facilities with advanced communication links 	<ul style="list-style-type: none"> • Existence of information intensive industries • Clustering of pools of talent • Specialisation/restriction of tenants • Premium and/or high-tech business and communication architecture • Convenient location • Government incentives • Presence of supporting facilities 	<ul style="list-style-type: none"> • Stimulates investments and creates jobs • Breeds successful tenants • Attracts inflow of foreign investment and stimulates growth of information service industry • Generates spin-off benefits to facilitate growth of other information-intensive sectors (e.g. financial services)
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A. Case Study 1: Software Technology Park of Bangalore

A.1 Background

The Software Technology Park in Bangalore ("STP-Bangalore") was set up by the Department of Electronics ("DoE") in 1991.

- Objective

Its objective is to promote exports from the software and service industries by facilitating all the statutory services, strengthening the communication infrastructure and increasing quality consciousness in the industry.

- Ownership and Investment

This was a public sector initiative under which the DoE provided a one-time grant of US\$1.3 million to create telecommunications infrastructure and to purchase land rights from the State Government.

- Key Features of the STP Scheme

The STP scheme is a 100% export-oriented programme for the development and export of computer software using data communication links or physical media, including the export of professional services.

The following are examples of government incentives offered under the STP scheme:

- free choice of location for the STP project;
- 100 percent foreign equity;
- duty free for all imports of hardware and software;
- corporate tax holiday; and
- free repatriation of dividend after payment of income tax, if any.

A.2 Key Achievements and Benefits

- Breakeven within a Short Period

DoE had internal guidelines requiring STP-Bangalore to break even in three years. This objective was achieved in less than the specified period.

- 250 Software Companies Attracted

Approximately 250 companies have been attracted to STP-Bangalore. They include 78 multinational corporations, 37 major Indian companies as well as 135 smaller firms.

- Over 200,000 Jobs Created

The inflow/set-up of software companies has directly created 30,000 jobs. Besides, another 200,000 jobs have been created indirectly from the development of the area.

- Significant Investment in Software Industry

The software industry in Bangalore has attracted foreign investment of approximately US\$475 million. Such investment has also led to the development of local entrepreneurial initiatives. In 1997/98 alone, resident investment amounted to approximately US\$53 million.

- Significant Growth in Software Industry

The software industry in Bangalore is growing at 60% a year. In 1996/97, the industry's turnover amounted to approximately US\$1 billion.

- Increase in Software Exports

Software exports from Bangalore totalled US\$350 million in 1996/97. This accounted for more than 50% of India's exports under the national STP scheme.

- Continuous Supply of Technical Talents

The STP-Bangalore has led to the development and diffusion of IT talents in other parts of India through the mobility of employees.

- Follow-on Projects

The success of STP-Bangalore has led to the development of other technology parks such as International Technology Park (a Singaporean-Indian joint venture with total investment of US\$450 million) and Electronics City.

B. Case Study 2: Staten Island Teleport of New York

B.1 Background

The Staten Island Teleport of New York ("SIT") is situated on Staten Island, 11 miles away from Manhattan, New York.

SIT was a project initiated by the Port Authority of New York and New Jersey ("PA") in 1982 in recognition of a cyberport as the needed infrastructure to keep New York ahead of other financial, broadcast and communication centres in the information age.

SIT was the first intelligent and highly secured business park dedicated to the integration of communications and real estate.

- Objective

Its objective is to address the need for a sophisticated communication system in the Metro New York region in order to support the requirements of heavy data industries such as financial services, telephony and broadcasting.

- Ownership and Investment:

SIT is a public/private joint venture among PA, the City of New York and Teleport Communications Group ("TCG") in which the public sector contributed approximately US\$80 million out of a total investment of about US\$865 million. A more detailed analysis of contributions made by the different investors is shown in next page.

Site Preparation and Infrastructure	PA	70
Roads, Drainage and Sewage Services	City of New York	10
Superstructures	TCG	100
	Teleport Associates	550
	Telehouse (all private sector investors)	35
Regional Fibre Optic Network and Associated Communication Equipment	TCG	100
		865

- Current Land Use

On the development of 40 hectares, there are:

- five Class A office buildings of 120,000 m²;
- a Telecentre with access to satellites;
- 23 earth stations;
- a 600+ mile regional fibre; and
- high speed transmission lines.

B.2 Key Achievements and Benefits

- Positive Cash Flow since 7th Year after Operation

An annual positive cash flow has been generated for the PA since 1992.

- 50 Quality Tenants Attracted

The 50 tenants cover a number of information intensive industries with heavy data storage and transmission requirements - financial services (including securities firms and insurance companies); call centres; Internet hub providers; data storage providers; printing, media, and broadcasting (radio, TV) companies; technical service providers and related businesses.

- 4,600 Jobs Created

About 3,000 on-site direct jobs and 1,600 on-site indirect jobs have been created.

- Nurtured Successful Tenants

TCG, the anchor tenant, has become the largest operator of local, alternative-access fibre optic networks in the United States. Its annual turnover amounted to US\$494 million in 1997. Its market valuation exceeded US\$11 billion in early 1998.

In addition, Telecentre has become one of East Coast's most active landing sites for about 100 TV, video and related broadcast channels.

- Fostered New Media Industry

SIT has fostered the development of an entirely new industry in New York: the new media industry engaged primarily in the business of digital publishing. Since 1995, the new media employment in New York City has been up by 105% and it is now a US\$2.8 billion industry.

- Further Development of SIT

Teleport Associates is currently negotiating with the PA to develop three more office buildings in the SIT.

C. Case Study 3: Focus Teleport Berlin

C.1 Background

Focus Teleport Berlin ("FTB") is located close to the Berlin/Tegel Airport. It is established in 1989 by a private real estate company known as Immobiliern-Treuhand and Vermögensanlage AG ("ITAG").

- Objective

FTB was set out to be a high-tech business services centre for enterprises in the information and communication industries.

- Ownership and Investment

FTB was funded entirely by the private sector. ITAG has invested a total of DM250 million while Deutsche Telekom has been responsible for building the telecommunications infrastructure.

- Current Land Use

FTB was developed on the site of an abandoned grain mill. The built-up area now covers 7.4 hectares, 90% of which is used for office buildings (providing total floor space of 85,000 m²) and 10% for educational/conference used. The site is also equipped with satellite communication facilities.

C.2 Key Achievements and Benefits

- Good Return on Investment

FTB generates an annual rental income of about DM30 million which translates to a rental yield of 8-10% per annum. In addition, as of 1997, the capital appreciation of the real estate development amounted to DM125 million.

- **120 Quality Tenants Attracted**

There are over 120 companies in the FTB, comprising a good mix of companies such as innovative beginners, venture capitalists as well as multinational corporations.

The total investment of these tenants is estimated to be in the range of DM300 to 400 million.

- **6,250 Jobs Created**

About 2,500 direct and 3,750 indirect jobs have been created.

- **Facilitated Local Developments**

The success of the FTB has helped to stimulate other developments in the area and nearby neighbourhood, including the relocation of the Ministry of Interior and the development of the Mediport (another version of the cyberport designed specifically and creating for the medical industry another 500 new jobs).

Supported the Growth of the Information and Communication Sector

In 1996, there were more than 2,100 businesses in the information and communication technology sector in Berlin. Their rapid development is expected to lead to dynamic growth in the city.

- **Further Development of FTB**

The success of the FTB has prompted its developer to undertake further extensions. Additional office space of 25,000 m² is expected to be completed by Year 2000.

III. Strategic Assessment for Hong Kong

Although a private sector proponent has presented a specific proposal to develop a cyberport in Hong Kong, we suggest the Government to look beyond the specifics of that proposal and evaluate the cyberport concept on its own merits, in the broader context of Hong Kong's strategy for the future.

The strategic assessment should be to understand:

- how a cyberport would potentially impact Hong Kong's economy at large; and
- how it should be aligned with Digital 21, the information technology strategy for Hong Kong, to make the territory "a leading digital city in a globally connected world".

In performing such assessment, we have drawn our insights from the experience of other cyberports (see Section II), as well as the results of interviewing potential cyberport users from software companies, Internet Service Providers, content and media companies, and education and training content companies.

A. Defining the Subject of Assessment

Taking into account sectoral needs and Digital 21 strategies, there is broad consensus among the interviewees that a cyberport in Hong Kong (if pursued) should be:

"..... an infrastructure to provide data management/ processing capabilities and equipment at a shared cost to companies operating in:

- *transaction services for trade and retail;*
- *information services;*
- *software engineering; and*
- *other information intensive industries (such as financial services, telecommunications, as well as media and entertainment)."*

It is envisaged that the cyberport would possess a number of features:

- Advanced Communication Links

The availability of high bandwidth capabilities at reasonable costs is important in order to facilitate the application of tomorrow's technology for today's industry.

- Shared Facilities

These include data management/content centre, processing centre, communication and computer equipment as well as a shared work environment for research and development.

- People and Skills

There will be a clustering of people skills in order to create a shared business/social environment and to enable cross-fertilisation of ideas and products.

- Other Features

Other features will include the ability to switch among telecommunications operators, proximity to customers and adequate transportation links as well as availability of land/site for future expansion.

The broad outlines of the cyberport as described above will form the subject of the strategic assessment.

B. Potential Benefits to the Economy

B.1 Overall

By leveraging on Digital 21, the cyberport as described above is expected to benefit Hong Kong in the following ways:

- New economic activities within the cyberport itself will be created as a result of:
 - quality tenants;
 - clustering of pool of talents;
 - specialisation in information-intensive industries; and
 - availability of premium and/or high-tech communication architecture at reasonable costs.

-
- Spin-off benefits are expected to be created in the following economic sectors:
 - transaction services for trade and retail;
 - information services;
 - software engineering such as Web-based multimedia software development and applications; and
 - other information intensive industries, e.g. financial services.
 - International/ domestic marketing advantage in enhancing Hong Kong's competitiveness as a regional hub for the information age

B.2 Examples of Shared Facilities and Key Benefits by Sector

The spin-off benefits to various economic sectors are further described below.

B.2.1 Transaction Services for Trade and Retail

The cyberport will offer state-of-the-art communication facilities that would not be economical for small and medium-sized companies, or even larger enterprises to build at their own costs.

Examples of the shared facilities that could be offered by a cyberport are:

(i) Global Telepresence Design/Cyber "Knock-off" Centre

This will be made possible by shared facilities and expertise such as high-powered broadband communication links, shared design terminals and graphic/product designers, for example:

- Scanning Centre;
- Telepresence Workstations; and
- Optical Communications.

(ii) E-procurement Processing Centre

The Centre will have two possible roles:

- Transaction Processing Centre - serving as a clearing house or processing centre for procurement activities.
- Regional Server Hub of established global e-commerce services - hosting and processing Asian procurement and fulfilment transactions.

(iii) Internet Retail Store

In addition to serving local consumers, the Store will expand the market-reach of local retailers and enable them to tap into the global market.

The added values of Internet retailing, e.g. personalised new product information, access to discussion forum of product users, etc., will provide attractions to a new group of consumers to shop on-line.

Internet retail store, as a virtual retail store, will require less capital outlay and involve lower exit costs. It will thus enable a new group of entrepreneurs to engage in retail business, at the same time helping existing retailers to expand their business without significantly increasing their risks.

The potential economic benefits to the trade and retail sector will include:

- Promoting e-commerce transactions, this will benefit Hong Kong through:
 - Enlarging the market-reach of Hong Kong's traders and retailers;
 - Enabling the traders and retailers to widen their business scope by participating in on-line e-commerce businesses; and
 - Offering an alternative mode of business for business diversification.

-
- Improving the competitiveness of Hong Kong as a trade and retail centre through an increasing use of e-commerce to help:
 - traders and retailers streamline their supply chain and minimise their inventory carrying costs; and
 - Hong Kong better position itself as an electronic entrepot.

B.2.2 Information Services

A cyberport, by offering the following shared facilities, could reinforce Hong Kong's advantage in free information flows, which is often rated as the most important appeal to content development companies.

(i) Regional Content/Data Research & Management Centre

The Centre would be useful for on-line securities brokers similar to E*Trade and others. The key enablers for its operation will include:

- Hong Kong's status as a financial hub in Asia; and
- Hong Kong's unique position for providing access to financial information about mainland China.

(ii) Virtual Trade Library and Hub

This Centre will contain documentary forms, trading rules, product catalogues, as well as company and product indexes for traders. The key enablers for its operation will include:

- Hong Kong's status as a regional sourcing centre; and
- Hong Kong's role as the transshipment centre for mainland China.

(iii) Media Production and Resources Centre

The key enablers will include:

- Hong Kong's role as a major production centre for media and entertainment industry for Chinese communities worldwide; and
- Freedom of press and speech.

The potential economic benefits to the information services sector will include:

- Attracting investment in setting up content centres, thereby creating new job opportunities;
- Strengthening Hong Kong's position as a regional financial centre as well as a regional trading hub; and
- Fostering the growth of the media industry.

B.2.3 Software Engineering

With the presence of local talents in Web-based multimedia software applications, start-ups could be promoted in Hong Kong through provision of facilities at affordable costs.

Examples of the shared facilities that could be offered by a cyberport are:

(i) Multimedia Park and Media-Lab

Major facilities that could be included are:

- Multimedia equipment and studio facilities;
- Media research facilities; and
- Training campus for multimedia professionals (e.g. a new Asian campus for MIT's Media Lab).

The potential economic benefits to software engineering will include:

- Stimulating local entrepreneurial activities in areas such as Web-based multimedia software development and applications;
- Enabling the growth of software engineering business; and
- Creating job opportunities for local talents.

B.2.4 Financial Centre/Cyber Money Centre

Hong Kong, as a regional financial hub, requires the capability and the capacity to handle substantial transaction volume. To that end, a cyberport could offer the following shared facilities to the financial services sector:

(i) Legacy Systems Processing Centre

The cyberport, with its high speed communication and dual power capabilities, could be a shared-cost centre for systems backup, disaster recovery, and other shared processing or shared service facilities.

(ii) Web System Centre

One possible set-up would be the Asian Server Hub for global Internet services - to process Asian securities transactions for the global on-line broker such as Schwab-Online or E*Trade.

(iii) Supporting Development of E-banking and Asian Call Centres

By integrating communication technology and customer service, the cyberport could also facilitate Hong Kong's development in Web-based e-banking and call centres.

The potential economic benefits to the financial services sector will include:

- Enabling Hong Kong to uphold its status as a financial centre;
- Functioning as a cost effective data centre for both regional and smaller financial institutions; and
- Facilitating Hong Kong's development in Web-based e-banking and call centres.

C. Concluding Remarks

A cyberport in Hong Kong could play an important role in Digital 21 to support the growth of the following sectors:

- Transaction services for trade and retail;
- Information services;
- Software engineering; and
- Other information intensive industries (financial markets, telecommunications, media and entertainment).

In order to realise its economic contributions:

- The designated role and features of the cyberport must be properly aligned; and
- The cyberport must be functioning in the context of Digital 21.

In view of the potential economic benefits of developing a cyberport, there is clearly a case in favour of further studies and evaluation of the proposed development. The proposal presented by the private sector proponent could be used conveniently as a starting point for such studies, but that proposal will have to be refined and will conceivably evolve in the next stage of evaluation.

The Government's evaluation in the next stage should be an interactive process engaging the private sector in a combination of project planning and feasibility assessment:

- A programme should be developed to initiate an active dialogue with selected target tenants to:
 - obtain input and feedback to enhance the design of the proposed cyberport;
 - assess (and secure, if possible) the commitment of the target tenants; and
 - determine the potential of private sector contribution to the initial investment.
- Specific studies should be directed at issues related to land use, rental scheme and communication links.

For the purpose of such studies and evaluation, the Government should ensure that there will be sufficient input from both the public and the private sectors.

PHASE 2

PHASE 2

I. *Introduction*

The Information Technology and Broadcasting Bureau (hereinafter "the ITBB") of the Government of the Hong Kong Special Administrative Region (hereinafter "the Government") received a proposal from Pacific Convergence Corporation (hereinafter "PCC") regarding the development of a cyberport in Hong Kong.

In this connection, the ITBB has set up a special task force to review the proposal (hereinafter "the proposed cyberport") and conduct further discussions with PCC. In addition, the Government has engaged Arthur Andersen Business Consulting (hereinafter "AABC") to approach potential cyberport users and solicit from them the following information to support such discussions:

- their views on the features and characteristics of the proposed cyberport; and
- their level of interest (on a non-committal basis) in becoming tenants, co-developers and/or shared facilities/services providers

Project Approach

Throughout February 1999, AABC conducted a number of focus group discussions and individual interviews with representatives from companies involved in the information technology (hereinafter "IT") and information services (hereinafter "IS") industries. Before the discussion process began, the list of focus group and interview participants together with details of the questions to be asked were approved by the ITBB.

Focus Group and Interview Participants

The participants who attended the focus group discussions and interviews represented companies that are currently operating in one of the following sectors of the IT/IS industries:

- provision of information services;
- software engineering with focus on (Web-based) multimedia software development and applications; and
- provision of products and services in other information intensive industries, including media and entertainment as well as on-line services.

In general the participants are employed at the senior management/director level of their companies.

II. *Main Findings*

Through the focus group discussions and interviews AABC was able to assemble a reasonably clear picture of the key elements that the participants felt would 'make' or 'break' the proposed cyberport.

It should be noted that the sessions in the focus group discussions and interviews were designed to elicit as much feedback as possible - both good and bad. In formulating our conclusions, we have tried to filter out the more extreme edges of the debate and focus on the areas where there was a genuine consensus of views.

Although the participants represented a number of different industries and areas of expertise, there was a surprising degree of consensus on a number of viewpoints and issues.

Key Benefits

Although representatives of different industry sectors viewed different aspects as important, a majority of the participants recognised that the proposed cyberport would be able to deliver the following benefits:

- It would give the advantages (e.g. physical networking opportunities, synergies from interactions, increased proximity etc.) that could be derived from 'clustering' upstream and downstream business partners and other product and service providers in related industries in one physical location.
- It would act as a beacon or 'centre of excellence' to promote the high-tech image of Hong Kong and as a catalyst for multinational corporations (hereinafter "MNCs") to consider (or revisit) the option of locating their operations in the territory.

Key Concerns

The participants raised valid concerns in many areas but the following issues were common to almost all of the discussions and interviews:

- The participants felt that in addition to a cyberport, there must be a series of properly aligned and focused initiatives to develop other elements in the broader economic and industry infrastructure. The development of the total infrastructure would be essential to ensure the healthy development of the IT/IS industries.
- The participants stressed that in the information age, a cyberport is not necessarily restricted to one physical location and the ultimate aim must be to develop the whole of Hong Kong into a 'virtual' cyberport.
- The participants also stressed that the cyberport would not be attractive if it were planned and developed based on real estate considerations. The success of the project would depend on the extent to which the planning and development processes are driven by the technological needs of the potential tenants.

III. Summary of the Participants Views on the Proposed Cyberport's Features

Appropriate features for the proposed cyberport will be crucial to its success. In general the focus group and interview participants were supportive of the following proposed facilities and services:

- Telecommunications and information infrastructure – all participants rated these facilities as critical.
- Interface with universities and research institutions – most participants felt this facility would be a major aid to developing local expertise and attracting quality human resources to Hong Kong.
- Commercialisation support services – most of the participants felt that assistance in obtaining access to funding would be desirable.

IV. *Summary of the Participants Views on Other Characteristics of the Proposed Cyberport*

Key views of the participants on the other characteristics of the proposed cyberport can be summarised as follows:

- Overseas participants who are not familiar with the Hong Kong environment felt that the provision of high quality serviced apartments, residential developments and entertainment facilities would be a useful and important feature to lure overseas expatriates to the cyberport. However, participants who are residents in or more familiar with the compact layout of Hong Kong felt that these facilities would not be important.
- Only essential basic retail facilities were viewed as necessary by overseas participants.
- The cost structure was regarded as a very important consideration in deciding whether to locate or relocate to the proposed cyberport (especially by local small and medium-sized enterprises – hereinafter “SMEs”). Most participants from companies with international operations stressed that they would benchmark costs against both regional and international alternatives.
- The provision of any form of subsidy on rents or operating/funding costs would make the cyberport more attractive but would also be a politically sensitive issue. The process for the allocation of subsidies would therefore need to be fair and transparent.
- Most of the participants agreed that the existence of MNCs as anchor tenants would be important. On the other hand, it would also be important to prevent them from dominating in the cyberport. Most participants also stressed the importance of securing the right mix of tenants to ensure that the benefits of ‘clustering’ could be realised.
- The role of management was viewed as important to the success of the project by most of the participants. They stressed that the management team should be made responsible for overall strategy, public relations and promotion of the cyberport and should therefore have ultimate responsibility for attracting key tenants. They also felt the management should play a role in attracting venture capital and other sources of funding for projects being undertaken by cyberport tenants.

- There was a general consensus that good transportation links to the cyberport would be important and overseas participants raised concerns on the availability of good links to the airport.
- There was a general consensus that the provision of hotel services in the cyberport would not be important for tenants.
- Finally, most of the local participants felt that speed of implementing the project was important. On the other hand, overseas participants felt that the current development timeline seemed reasonable as they would need time to either establish their presence in Asia or plan a relocation of their Asian operations to the proposed cyberport.

V. *Summary of the Participants Suggestions for Improvements to the Proposed Cyberport*

From the focus group discussions and interviews the suggestions for improvements centred on the strategy for positioning and promoting the proposed cyberport. The types of improvements suggested include:

- Positioning the cyberport as a technology driven rather than a real estate driven development. The public/potential user perception of the cyberport would be crucial to its chances of success. If it were simply viewed as another real estate development, it would have little chance of success and could have a very negative impact on Hong Kong's IT/IS industry promotion credentials.
- Managing the development of the cyberport as part of the Government's overall information technology strategy. This would require proper alignment with the development of other elements in the broader economic and industry infrastructure.
- Developing a concrete marketing and promotional strategy for the cyberport so as to draw in tenants, investors, venture capitalists and high quality human resources. For the cyberport to succeed the right number and mix of tenants must be attracted to it in a relatively short period of time.
- Obtaining a clear message of support from the PRC Government to add credibility to the cyberport and improve its credentials as a 'gateway to the PRC'. Most MNCs viewed good links with the PRC as one of the key advantages of locating in Hong Kong. The cyberport must be seen to be capitalising on these links.

VI. *Summary of the Participants Views on Supporting Economic and Industry Infrastructure*

The participants stressed that if other elements in the economic and industry infrastructure could be put in place, the cyberport would have a greater chance of success. This infrastructure would focus on four areas:

Market

The first set of issues all relate to the general environment in the surrounding market for IT/IS industry products and services:

- Usage and knowledge of the Internet is currently low in Hong Kong. In order to grow the market for Internet related technologies, wider use has to be encouraged. The Government could play a more active role in encouraging the use of the Internet by disseminating and monitoring more of its own information electronically.
- Currently the regulation in fixed line telecommunications stifles competition and therefore slows the development of new products and services. It was suggested that the process of liberalisation be speeded up.
- There is presently a poor understanding of the concept of intellectual property rights in Hong Kong and current legislation and enforcement is perceived as too weak. There needs to be a renewed commitment to protecting the fruits of research and development from intellectual property rights violations.
- If the status of the local IT/IS industries is to be raised, their products not only need to be produced to high quality standards but also need to be viewed as world class. The Government could greatly enhance the status of locally made products by openly endorsing their use.

Government Support

The second area that was viewed as important was government support. To enhance the development of the IT/IS industries, participants suggested that the Government:

- maintain an on-going dialogue with the IT/IS industry participants to clearly understand their needs;
- re-examine how it can better align, prioritise and integrate different Government initiatives;
- provide financial support through a fair and transparent allocation system or develop various incentives that would encourage private sector funding institutions to provide financial support to companies in the IT/IS industries; and

-
- involve people with industry specific skills and experience in the implementation of Government initiatives and supervision of the provision of financial support.

Supply of Funding

Access to funding is currently considered to be a real problem. Most of the local participants stressed that traditional local funding institutions have failed to embrace the concept of intellectual assets that is so central to the IT/IS industries. They suggested the following remedies:

- The Government needs to promote these industry sectors to global venture capitalists and establish 'angel'¹ investor networks.
- The Government should design incentives to encourage both local and overseas funding institutions to provide capital for funding local projects in the IT/IS fields.

Supply of Human Resources - "Talents"

The current lack of appropriately qualified/experienced human resources is limiting the growth potential of the IT/IS industries in Hong Kong. The participants suggested the following improvements:

- Local education programmes need to ensure that the technical courses they are offering are focusing on the skills that are required in the IT/IS industries in Hong Kong. The teaching methods (e.g. use of real life case studies) need to enable graduates to cultivate more vocational and practical skills.
- Local education system needs to produce students who have a clear sense of responsibility and are willing to show genuine commitment to their own career development. Training in languages also needs to be enhanced.

¹ An 'angel' investor network is usually made up of a number of wealthy private individuals who have had hands-on industry experience and who are willing to back new ideas/projects with capital. Compared to venture capitalists and traditional funding institutions, these investors are less risk averted and are more prepared to take on mentoring responsibilities for start-up companies.

VII. *Summary of the Participants' Level of Interest in the Proposed Cyberport*

The focus group and interview participants were asked to express their level of interest (on a non-committal basis) in the proposed cyberport on the understanding that the suggested improvements as described in Sections III to V could be realised. The results can be summarised as follows:

- An overall majority of the participants expressed an interest in becoming tenants.
- Less than half of the participants expressed some level of interest in providing shared facilities/services.

The interview participants were also asked if they were interested in acting as co-developers of the cyberport. In general, there was very little interest expressed, primarily because most of these participants were not involved in technological infrastructure development.

VIII. *Next Steps*

To increase the potential for success, the sponsors of the proposed cyberport need to carefully consider the improvements suggested by the participants. There is also a need to understand the nature of the broader economic and industry infrastructure that would be necessary to support the development of the IT/IS industries.

The development of the cyberport will be an extremely complex and challenging task. Whilst the Government and developers in Hong Kong have a proven track record in partnering to create successful infrastructure, commercial and residential projects, the highly technical nature of the cyberport infrastructure will present a whole new series of challenges.

Even the fastest proposed development timelines leave a considerable period before completion. During this period changes in the external economic environment could have a considerable impact on government policy, the scope of the project and the corporate strategy of potential tenants.

Throughout the process, the development priorities of the Government, the developers and the potential tenants will inevitably be different and sometimes conflicting. Although a number of MNCs have expressed their interest in the project, transforming their initial interest into a concrete commitment will require a process that would continue to engage their interest during the development period.

Currently, a number of institutional issues need to be tackled:

- Developing a fair and transparent process for approaching and screening potential tenants;
- Defining a set of objective criteria for allocating cost subsidies (if any) and supporting services among different tenants; and
- Establishing the protocol for future management and operation of the cyberport.

Given the scale of the potential challenges AABC believes that if the project is to go ahead the sponsors need to immediately establish some form of project steering committee that can carefully oversee the whole development process from concept to completion.

Project Scope

In accordance with the latest development plan, the Cyberport will provide five office towers, a hotel, a Cyber Mall, and some 3000 residential units in the form of houses, mid and high-rise flats. A breakdown in terms of gross floor areas is given below-

<u>Type</u>	<u>Gross floor area (sq m)</u>		<u>No. of units/rooms</u>	
	<u>For sale</u>	<u>For lease</u>	<u>For sale</u>	<u>For lease</u>
Office	-	92,600	-	-
Hotel	-	7,500	-	125
Cyber Mall	-	29,000	-	
Serviced apartment	-	4,500	-	50
House	6,720	8,100	22	27
Mid-rise residential	21,000	19,500	156	144
High-rise residential	300,470	47,250	2,225	350
Sub-total	328,190	208,450	2,403	696
Total GFA (sale + lease)		<u>536,640</u>		
Total no of units (sale + lease)		<u>3099</u>		

Compared with the original conforming housing development, the number of residential flats produced under the Cyberport project is roughly the same but the average flat size is smaller.

The phasing of the project is show on the plan attached.

Hong Kong Cyberport Phasing Plan

香港數碼港分期計劃

2003

offices 辦公室 40,000 m²
hotel 酒店 7,500 m²

2001

offices 辦公室 23,000 m²
apartments 多層住宅 10,000 m²

2005-2007

apartments 多層住宅 208,000 m²

2003 / 2004

houses & apartments 168,000 m²
獨立及多層住宅

2002

offices 辦公室 29,000 m²
cyber mall 數碼商場 29,000 m²
serviced apartments 服務式多層住宅 4,500 m²
houses & apartments 獨立及多層住宅 18,000 m²
and shared facilities 與共用設施

GRAPH BAY



**A Note on Engineering Infrastructure
for Cyberport Development at Telegraph Bay**

INTRODUCTION

A funding submission is being prepared by the Administration to invite members of the Public Works Sub-Committee to recommend to Finance Committee –

- (a) the upgrading of part of **653CL**, entitled “Engineering Infrastructure for Cyberport Development at Telegraph Bay, phase 1” to Category A at an estimated cost of \$936 million in money-of-the-day prices; and
- (b) the retention of the remainder of **653CL** in Category B.

PROBLEM

- 2. There are no roads, drains and essential infrastructure to support the proposed Cyberport development at Telegraph Bay.

PROPOSAL

- 3. The Director of Territory Development (DTD), with the support of the Secretary for Information Technology and Broadcasting (SITB) and the Secretary of Works (S for W), proposes to upgrade part of **653CL** to Category A at an estimated cost of \$936 million in money-of-the-day (MOD) prices for the provision of roads, drains and the essential infrastructure for the Cyberport development.

PROJECT SCOPE AND NATURE

- 4. The full scope of **653CL** comprises –
 - (a) the advance works including installation of vertical drains, surcharging the reclamation area using both public fill and imported fill, construction of box culvert and associated earthworks;

- (b) construction of the southern access road (1 100 metres long), Road D1 (760 metres long), Road D2 (160 metres long), and associated footpaths, noise barriers, waterworks, stormwater drains and sewers;
- (c) construction of a sewage treatment plant including a 300 metres long sewage submarine outfall;
- (d) construction of a public transport interchange;
- (e) reprovisioning of part of the Government kennels; and
- (f) construction of the northern access road (440 metres long) and associated footpaths, waterworks and drainage works.

5. The part of the project we now propose to upgrade to Category A comprises -

- (a) detailed design and construction of the works described in paragraphs 4(a) to 4(e) above; and
- (b) site investigation and engagement of consultants to carry out the detailed design of the works described in paragraph 4(f) above.

JUSTIFICATION

6. The proposed Cyberport at Telegraph Bay is a mixed development of commercial, residential, recreational and tourist facilities. It will provide a high quality living and working environment to attract and retain overseas and local talents in the information technology and services industries. Upon full development, Cyberport will create 12 000 jobs and accommodate a residential population of 10 000. Subject to the signing of a Project Agreement, the Administration will develop the Cyberport in collaboration with the Pacific Century Group (PCG), a leading information technology and services company. The current programme is to start construction of the first phase of the proposed Cyberport in mid 2000 for completion by end 2001. The last phase of the Cyberport is scheduled for completion by end 2003/early 2004, and the associated residential development by end 2007.

7. The development area of Cyberport is on reclaimed land. In 1989, the Director of Civil Engineering (DCE) completed the reclamation works at Telegraph Bay by way of public filling using barges. The area has not been occupied so as to allow the residual settlement to take place for a longer period of time. There will be settlement in excess of the current design standard if development proceeds now without any ground treatment. We, therefore, need to carry out ground improvement work to accelerate the settlement process prior to handing over the site to the Cyberport developer. In addition, we need to complete a box culvert and the associated earthworks in the northern part of the site which is inside the first phase of the Cyberport development. To tie in with the development programme of the first phase of the Cyberport, we need to carry out these advance works in late 1999 for completion in mid 2001.

8. At present, there is no road access to Telegraph Bay. In accordance with a traffic impact assessment (TIA) study, we need to provide road access at both ends of the Cyberport development. The proposed southern access road will connect the site to Victoria Road whereas the proposed northern access road will connect the site to Sha Wan Drive. The northern and southern access roads will be connected by a distributor Road D1 within the site. Another distributor Road D2 within the site will be connected to the future Telegraph Bay Interchange of Route 7. The completion of the southern access road and Road D1 are required to meet the traffic demand generated from the first phase of the Cyberport development. In conjunction with the roadworks, we will construct the associated public transport interchange, drainage, sewerage, and water works to serve the Cyberport development. We also need to re-provision part of the Government kennels affected by the southern access road.

9. At present, Telegraph Bay is unsewered. In the long term, the sewage from the Cyberport development will be discharged into the proposed Strategic Sewage Disposal System (SSDS) Stage III/IV when the system starts to operate around 2007/2008. Before the commissioning of the SSDS, there is a need for a short term sewage treatment and disposal facility. We will provide a sewage treatment plant at Telegraph Bay to serve the Cyberport development and will discharge the treated effluent to the waters in East Lamma Channel via a 300 metres long submarine outfall.

10. To achieve the target completion of the first phase of the Cyberport development by end 2001, we need to provide the necessary supporting engineering infrastructure in a timely manner. The construction must start by end 1999 at the latest. This is only achievable through entrustment of both design and construction of these works to the Cyberport developer. This

arrangement would expedite the design and construction process through effective co-ordination of the Cyberport developer. Furthermore, the construction period of the infrastructure work will overlap with that of the Cyberport development. Entrustment of the works to the Cyberport developer may avoid interface problems due to multiple contractors working on the same site and using the temporary jetties (Note: During the initial stage of the construction, all fill and construction materials will be transported by barges). To ensure cost effectiveness and timely completion of the proposed infrastructure works, we propose to entrust to PCG the design and construction of works described in paragraphs 4(a) to 4(e) above. The Director of Water Supplies also intends to entrust to the developer the construction of a trunk freshwater main under 241WF¹.

11. The TIA study recommended that the northern access road should be completed by end 2003 to meet the traffic demand arising from the subsequent phases of the Cyberport development. DTD plans to start construction work in mid 2000 for completion by end 2003. To tie in with this programme, DTD needs to start the detailed design in September 1999 for completion in May 2000.

FINANCIAL IMPLICATIONS

12. We estimate the capital cost of the project to be \$936 million in MOD prices (see paragraph 12 below), made up as follows –

	Smillion
(a) Design and construction of works to be entrusted to Cyberport developer	772.0
(i) advance works	130.0
(ii) roadworks	293.0
(iii) sewage treatment works including submarine outfall	203.0
(iv) noise mitigation measures	73.0
(v) waterworks, drainage and sewerage works	54.0
(vi) reprovisioning works and public transport interchange	15.0

¹ A related paper for the upgrading of 241WF under Head 709 to Category A is also being prepared.

(vii) fees for independent checking engineer	4.0	
(b) Site investigation and detailed design of northern access road		8.0
(i) site investigation	3.0	
(ii) consultants' fees	5.0	
(c) Contingencies		78.0
Sub-total		858.0 (at December 1998 prices)
(d) Provision for price adjustment		78.0
Total		936.0 (in MOD prices)

Due to insufficient in-house resources, DTD proposes to engage consultants to undertake supervision of site investigation and to carry out the detailed design for the northern access road. The Civil Engineering Department's term contractor and Government Public Works Central Laboratory will undertake the necessary site investigation and laboratory testing respectively.

13. Subject to funding approval by the Finance Committee, we will phase the expenditure as follows –

Year	\$ million (Dec 1998)	Price adjustment factor	\$ million (MOD)
1999 - 2000	50.0	1.02625	51.3
2000 - 2001	310.0	1.06217	329.3
2001 - 2002	330.0	1.09934	362.8
2002 - 2003	132.0	1.13782	150.2
2003 - 2004	36.0	1.17765	42.4
	858.0		936.0

14. We have derived the MOD estimate on the basis of the

Government's latest forecast of trend labour and construction prices for the period between 1999 and 2004. The proposed entrusted works to the Cyberport developer will be executed on a lump sum basis. DTD will award the proposed consultancy for the northern access road on a lump sum basis. The consultancy will provide for inflation adjustments as the consultancy period will exceed 12 months.

15. We estimate the annually recurrent expenditure to be \$10 million.

PUBLIC CONSULTATION

16. We consulted the Traffic and Transport Committee of the Southern Provisional District Board on 22 March 1999 on the proposed road scheme. Members had no objection to the proposal.

17. We will gazette the project under the Foreshore and Sea-bed (Reclamation) Ordinance and the Roads (Works, Use and Compensation) Ordinance on 30 April 1999.

ENVIRONMENTAL IMPLICATIONS

18. The Cyberport development is a Designated Project (DP) under Schedule 3 of the Environmental Impact Assessment Ordinance (EIAO) and requires an Environment Impact Assessment (EIA) report to be approved under the EIAO. In addition, the distributor Roads D1 and D2, the sewage treatment works and a 300 metres long sewage submarine outfall are also DPs under Schedule 2 of the EIAO for which environmental permits are required for their construction and operation.

19. We have prepared an EIA report for the Cyberport development in accordance with the requirements of the EIA study brief and the Technical Memorandum on EIA process. In April 1999, the EIA report was approved under the EIA Ordinance. The EIA concluded that with the implementation of the recommended mitigation measures, the environmental impacts arising from the project could be mitigated to within the established standards and guidelines. We exhibited the EIA report for public inspection on 12 March 1999 for a period of 30 days. We also presented the EIA report to the EIA Sub-Committee of the Advisory Council on the Environment (ACE) and the ACE Full Council endorsed the EIA report on 26 April 1999. We shall implement the mitigation measures set out in the approved EIA report. The key measures include the provision of noise barriers and low noise road surfacing at critical sections of the roads.

LAND ACQUISITION

20. The proposed works do not require any land acquisition. The clearance of the government land at Kong Sin Wan Tsuen will affect about 22 households involving about 66 persons. The Director of Housing will offer the eligible families accommodation in public housing in line with the existing housing policy. We will charge the cost of clearance, estimated at \$0.25 million, to Head 701 – Land Acquisition.

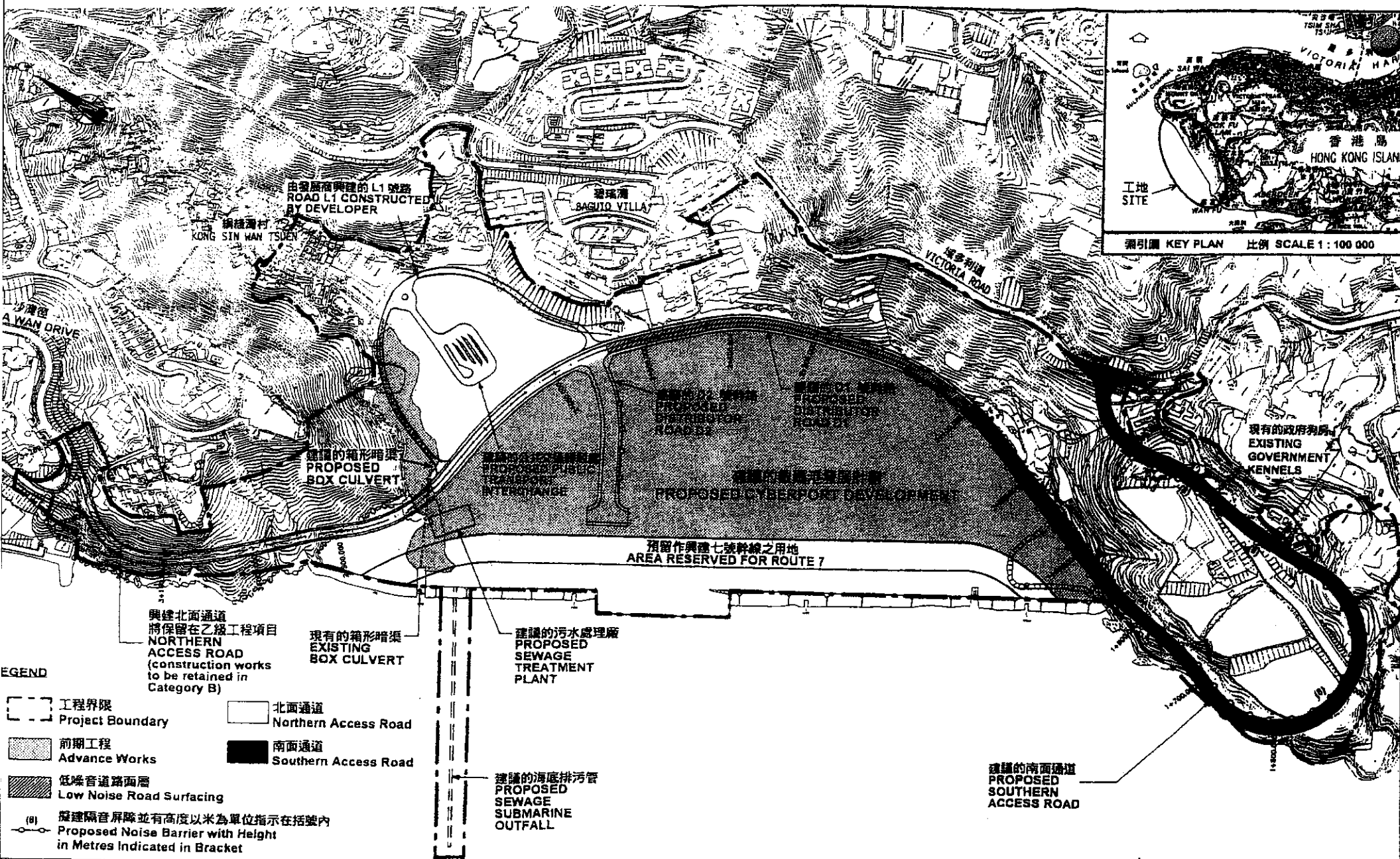
BACKGROUND INFORMATION

21. We included 653CL in Category B in April 1999.

22. Subject to funding approval, we plan to enter the entrustment agreement with the Cyberport developer in June 1999. The entrusted works will start in late 1999 for completion in phases from mid 2001 to early 2002.

23. DTD plans to start site investigation and the proposed consultancy for the northern access road in September 1999 for completion in August 2000. DTD plans to construct the northern access road in September 2000 for completion in August 2003.

Information Technology and Broadcasting Bureau
April 1999



一九九九至二零零零年度工務小組文件 PWSC Submission 1999-2000

網線灣數碼港發展計劃的基建工程
Engineering Infrastructure for Cyberport Development at Telegraph Bay

繪圖 drawn H C Lau	簽署 initial <i>HL</i>	日期 date 22-3-99	項目編號 item no. 653CL	辦事處 office 港島及離島拓展處 HONG KONG ISLAND AND ISLANDS DEVELOPMENT OFFICE 拓展署 TERRITORY DEVELOPMENT DEPARTMENT
校對 checked Eric Leung	簽署 initial <i>EL</i>	日期 date 22-3-99	比例 scale 1:4000	
核准 approved M T Wong	簽署 initial <i>MTW</i>	日期 date 22-3-99	圖則編號 drawing no. HKI - 315	