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Panel on Information Technology and Broadcasting

Meeting on 9 March 2009

Updated background brief on Cyberport Project

Purpose

This paper provides the background to the Cyberport Project (the Project) and an update on the concerns raised by the Panel on Information Technology and Broadcasting on the Project in 2008.

Background

2. The Government announced its decision to proceed with the Project in the 1999-2000 Budget as a move to provide the essential infrastructure for the formation of a strategic cluster of information services companies. On 17 May 2000, the Government, through three private and wholly-owned companies¹ set up under the Financial Secretary Incorporated (FSI), signed a Project Agreement with the Cyber-Port Limited which is a company set up by the Pacific Century Group as the Cyberport Developer. The development right of the Cyberport was granted to the Developer on 8 June 2000.

3. The Project, which occupies 24 hectares of land at Telegraph Bay, Pokfulam, comprises a Cyberport Portion and an ancillary Residential Portion. The Cyberport Portion was practically completed in June 2004 (though Cyberport 4 was opened in December 2004). It has four office buildings, a hotel and an arcade. The Cyberport Portion aims to create a strategic cluster of leading information technology (IT) and information services (IS) companies and a critical mass of professional IT/IS talents in Hong Kong in the shortest possible time. The Residential Portion, the revenue from which is used to drive the Project, has been developed in phases since September 2004 and completed in November 2008.

¹ The three companies are Hong Kong Cyberport Development Holdings Ltd, Hong Kong Cyberport Management Company Ltd, and Hong Kong Cyberport (Ancillary Development) Ltd.

4. On 17 May 2000, the FSI companies signed the Project Agreement with the Cyberport Developer and with its Parent Company, i.e. Pacific Century CyberWorks Limited. The Project Agreement provides a detailed, legally binding contract for the whole project period which would last from the commencement of the Cyberport works to completion of the sale of all the units in the Residential Portion. According to the Project Agreement, the Government is to contribute the land and provide the basic infrastructure, such as roads and sewage treatment, for the Cyberport development. The Government's capital contribution to the Project is the Residential Portion Land Value which was assessed by the Lands Department on the date of the grant of the development right to the Cyberport Developer, i.e. \$7.93 billion including the estimated cost of \$1.1 billion for the basic infrastructure. The capital contribution of the Cyberport Developer is the funding it provided to finance the construction costs and related expenses of the Project, i.e. \$4.36 billion. After deducting the relevant expenses due and payable and setting up reserve funds (such as the Development Maintenance Fund to upkeep and maintain the shared Cyberport facilities) as per the Project Agreement, the surplus proceeds from the sale of the residential units will be shared according to the respective capital contributions of the Government (64.5%) and the Cyberport Developer (35.5%). As of January 2008, the Government has received a total of about \$9.95 billion in surplus proceeds. Further surplus distributions will be made up to 2010. The FSI companies will retain 100% ownership of the Cyberport Portion, and the rental income and any other income to be generated from the Cyberport Portion belong to the FSI companies.

Discussion by the Panel on Information Technology and Broadcasting

5. The Panel has followed closely the implementation of the Cyberport Project² since September 1999. The Panel also visited the Cyberport in 2001, 2003, 2004 and 2006.

Public missions

6. The Panel has all along been very keen to ensure that the Project can meet its public missions³ so to create a strategic cluster and critical mass of leading IT companies. In this respect, members have requested that the Hong Kong Cyberport Management Company Limited (HKCMCL) should, in reporting on the

² Background briefs on the Cyberport Project were prepared in previous years and listed in the Appendix.

³ The public missions of the Cyberport Project are:
 (a) To create a strategic cluster of quality IT and IT related companies critical to the development of Hong Kong into a leading digital city in the region; (b) To nurture and support the development of small and medium IT enterprises as an essential constituent of such a strategic cluster; (c) To provide a state-of-the-art infrastructure conducive to the creation of such a strategic cluster and its development; (d) To develop a regional centre of excellence in IT and digital media training for creating human capital through collaboration and partnership with the industry, academia, and research institutes and professional bodies; (e) To spearhead the development of the digital media industry through the provision of hardware, software and technical support in the Digital Media Centre; and (f) To promote the development of services and applications for wireless and mobile communications leveraging on Cyberport's excellent infrastructure and synergy.

Project in the future, provide quantifiable information such as the extent of achievement for each of the public missions for members' evaluation on such as how far Cyberport has helped Hong Kong develop into a leading digital city in the region, and the extent to which small and medium IT enterprises had been nurtured and supported.

7. At the Panel meeting on 10 March 2008, members considered it regrettable that the Cyberport had not made much progress in achieving its public missions of developing a regional centre of excellence in IT, and creating a strategic cluster of quality IT and IT-related companies for developing Hong Kong into a leading digital city in the region. The HKCMCL assured the Panel that the management would continue to strengthen its efforts in achieving the public missions and to deliver tangible results in the years to come.

Leasing of Cyberport office and arcade

8. The Panel has discussed the uptake of tenancy of the Cyberport Portion (i.e. the Arcade and the office buildings) on 10 March 2008. Members considered that occupancy rate was an important indicator to assess the success or otherwise of the Project. As such, apart from urging the HKCMCL to come up with ways to boost the occupancy rate, members requested the HKCMCL to provide information on occupancy rates when reporting on the Project in the future. According to the HKCMCL, there was a steady increase in the occupancy rate of Cyberport office from 73.5% as of end January 2007 to 86.8% as of end January 2008. As regards the leasing of the Cyberport Arcade, the HKCMCL assured members that apart from reliance on the Anchor-Tenant to help attract quality tenants, the HKCMCL would continue to make the best efforts to increase visitor traffic during weekends and holidays, in order to attract retail merchants to set up business and retail outlets in the Arcade.

Return on the Government's investment on the Cyberport Project

9. The Panel has been very concerned about the return on the Government's investment on the Project in order to ascertain whether public money has been put to good use. In this respect, members have requested that annual briefings on the financial status of the Project should be made to the Panel in future, and the Administration and the HKCMCL should list side by side relevant figures for the past few years in the consolidated account report for members' reference.

10. At the Panel meeting on 10 March 2008, members noted that the surplus proceeds from the sale of the residential units would be shared according to the respective capital contributions of the Government (64.5%) and the Cyberport Developer (35.5%) after deducting the relevant expenses due and payable including the construction costs. Members urged the Administration to put in place an auditing and financial control mechanism to ensure that expenditure incurred in the

Project was fair, just and reasonable. According to the Administration, the annual accounts of the Cyberport Companies were audited by independent auditor in accordance with established accounting and auditing principles.

Latest position

11. The Administration and the HKCMCL will report to the Panel at its meeting on 9 March 2009 the progress of the development of the Project.

Relevant papers

12. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
3 March 2009

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of Public Works Subcommittee (PWSC) on 12 May 1999	Administration's paper : "653CL Engineering infrastructure for Cyber Port Development at Telegraph Bay" Minutes of meeting	PWSC(1999-2000)13 PWSC128/98-99
Meeting of Finance Committee (FC) on 21 May 1999	Administration's paper Minutes of meeting	FCR(1999-2000)12 FC199/98-99
Meeting of Establishment Subcommittee (ESC) on 9 June 1999	Administration's paper : "Proposed creation of two supernumerary posts of one Administrative Officer Staff Grade B (D3) and one Chief Engineer (D1) for a period of three years and increase in the establishment ceiling from \$25,746,000 by \$3,166,560 to \$28,912,560 in 1999-2000 for the creation of five non-directorate posts in the Information Technology and Broadcasting Bureau of Government Secretariat to oversee the Cyberport development" Minutes of meeting	EC(1999-2000)15 ESC69/98-99
Meeting of FC on 2 July 1999	Administration's paper Minutes of meeting	FCR(1999-2000)27 FC11/99-00
Meeting of Panel on Information Technology and Broadcasting (ITB) on 13 September 1999	Administration's paper : "Progress of the Cyberport Project" Administration's paper : "Progress of the Cyberport Project" Minutes of meeting	CB(1)1677/98-99(01) CB(1)1879/98-99(01) CB(1)194/99-00
Meeting of Panel on Financial Affairs on 6 December 1999	Administration's paper Minutes of meeting	CB(1)510/99-00(04) CB(1)899/99-00

Committee	Paper	LC Paper No.
Meeting of Panel on ITB on 14 February 2000	Administration's paper : "Progress of the Cyberport Project" Minutes of meeting	CB(1)953/99-00(03) CB(1)1120/99-00
Meeting of Panel on ITB on 8 May 2000	Administration's paper : "Progress of the Cyberport Project" Administration's paper : "Construction of the Northern Access Road to Cyberport development at Telegraph Bay" Minutes of meeting	CB(1)1504/99-00(02) CB(1)1504/99-00(03) CB(1)1720/99-00
Meeting of PWSC on 17 May 2000	Administration's paper : "653CL Engineering infrastructure for Cyber Port Development at Telegraph Bay" Minutes of meeting	PWSC(2000-01)19 PWSC153/99-00
Meeting of FC on 9 June 2000	Administration's paper Minutes of meeting	FCR(2000-01)22 FC159/99-00
Meeting of Panel on ITB on 12 June 2000	Legislative Council Brief : "Cyberport Project Agreement" Administration's paper : "Supplementary information on objections to the Cyberport project" Minutes of meeting	ITBB/CP 303/2 (00) CB(1)1796/99-00(03) CB(1)1977/99-00
Meeting of PWSC on 22 November 2000	Administration's paper : "241WF Extension of water supply to Pokfulam areas" Minutes of meeting	PWSC(2000-01)67 PWSC31/00-01
Meeting of the Legislative Council on 6 December 2000	Question on "Financial Arrangements for Cyberport Project"	Hansard

Committee	Paper	LC Paper No.
Meeting of Panel on ITB on 11 December 2000	Administration's paper : "Progress of the Cyberport Project" Minutes of meeting	CB(1)281/00-01(01) CB(1)410/00-01
Meeting of FC on 15 December 2000	Administration's paper Minutes of meeting	FCR(2000-01)53 FC42/00-01
Meeting of Panel on ITB on 9 July 2001	Administration's paper : "Progress of the Cyberport Project" Summary of background information on Cyberport Minutes of meeting	CB(1)1710/00-01(03) CB(1)1710/00-01(02) CB(1)1925/00-01
Meeting of Panel on ITB on 8 February 2002	Administration's paper : "Progress of the Cyberport Project" Background brief on Cyberport Administration's follow-up paper : "Opening of Public Transport Terminus at Cyberport" Minutes of meeting	CB(1)994/01-02(04) CB(1)994/01-02(03) CB(1)1295/01-02 CB(1)1225/01-02
Meeting of Panel on ITB on 8 April 2002	Administration's paper : "Cyberport – Tenancy Position for Phase I Building" Administration's paper : "Institutional Arrangements for Future Management of the Cyberport Project" Information note on Members' concerns about tenancy matters at the Cyberport Background note on the staffing proposal for Cyberport-related posts Minutes of meeting	CB(1)1432/01-02 CB(1)1416/01-02(01) CB(1)1430/01-02(01) CB(1)1421/01-02(03) CB(1)1642/01-02

Committee	Paper	LC Paper No.
Meeting of ESC on 15 May 2002	Administration's paper : "Proposed retention of two supernumerary posts of one Administrative Officer Staff Grade B (D3) and one Chief Engineer (D1) in the Information Technology and Broadcasting Bureau of Government Secretariat for a period of 18 months to enable the secondment of two suitable officers from the Government to a management team set up under a private company owned by Financial Secretary Incorporated to spearhead the Cyberport development" Minutes of meeting	EC(2002-03)1 ESC33/01-02
Meeting of FC on 24 May 2002	Administration's paper Minutes of meeting	FCR(2002-03)19 FC16/02-03
Meeting of Panel on ITB on 8 July 2002	Administration's paper : "Progress of the Cyberport Project" Background brief on Cyberport Minutes of meeting	CB(1)2172/01-02(02) CB(1)2172/01-02(01) CB(1)2429/01-02
Meeting of the Legislative Council on 30 October 2002	Question on "Concessionary Rent-free Periods Offered to Cyberport Tenants" Question on "Tenancy Position of Cyberport Offices"	Hansard Hansard
Meeting of Panel on ITB on 13 January 2003	Minutes of meeting	CB(1)846/02-03
Meeting of Panel on ITB on 28 January 2003	Administration's paper : "Progress Report on the Cyberport Project (January 2003)" Background brief on Cyberport Minutes of meeting	CB(1)765/02-03(03) CB(1)626/02-03 CB(1)985/02-03
Meeting of Panel on ITB on 21 July 2003	Administration's paper : "Progress Report on the Cyberport Project (July 2003)"	CB(1)2214/02-03(01)

Committee	Paper	LC Paper No.
	Background brief on Cyberport Minutes of meeting	CB(1)2214/02-03(02) CB(1)2385/02-03
Meeting of Panel on ITB on 12 January 2004	Administration's paper : "Progress Report on the Cyberport Project (January 2004)" Background brief on Cyberport Administration's follow-up paper : "Progress Report on the Cyberport Project (June 2004)" Minutes of meeting	CB(1)710/03-04(03) CB(1)581/03-04 CB(1)2232/03-04(01) CB(1)1044/03-04
Meeting of Panel on ITB on 10 January 2005	Administration's paper : "Report on the Cyberport Project (December 2004)" Background brief on Cyberport Minutes of meeting	CB(1)588/04-05(01) CB(1)623/04-05 CB(1)816/04-05
Meeting of Panel on ITB on 2 February 2005	Brief on the Government's consultation with the Legislative Council on the Cyberport project" Requests for further information raised at the meeting Administration's response to Members' requests raised at the meeting Minutes of meeting	CB(1)817/04-05 CB(1)864/04-05(01) Revised CB(1)943/04-05(01) CB(1)1053/04-05
Meeting of Panel on ITB on 8 May 2006	Administration's paper : "Report on the Cyberport Project (April 2006)" Background brief on Cyberport Administration's follow-up paper : "Report on the Cyberport Project (2005)" Minutes of meeting	CB(1)1380/05-06(04) CB(1)1381/05-06 CB(1)1931/05-06(01) CB(1)1701/05-06

Committee	Paper	LC Paper No.
Meeting of Panel on ITB on 12 March 2007	Administration's paper : "Report on the Cyberport Project"	CB(1)1065/06-07(19)
	Background brief on Cyberport	CB(1)1105/06-07
	Administration's follow-up paper : "Report on the Cyberport Project"	CB(1)1360/06-07(01) CB(1)239/07-08(01)
	Minutes of meeting	CB(1)2033/06-07
Meeting of Panel on ITB on 10 March 2008	Administration's paper : "Report on the Cyberport Project"	CB(1)975/07-08(06)
	Background brief on Cyberport Project	CB(1)975/07-08(07)
	Administration's follow-up paper : "Information supplied on the Cyberport Project"	CB(1)2300/07-08(01)
	Minutes of meeting	CB(1)1722/07-08