



10 May 1999

Press Release

Cyberport Private Treaty: Wrong Signals to Future Business

1. In response to the recent announcement by the SAR Government on reaching agreement with a private business entity on the broad framework for the development of the Cyberport, and the ensuing public debate on the properness of the private treaty arrangements, a substantial group of ten publicly listed companies controlled by local and overseas investors (collectively referred to as "The Group"), including Hang Lung Development Co. Ltd., Henderson Land Development Co. Ltd., HKR International Ltd., Hongkong Land Ltd., Hysan Development Co. Ltd., New World Development Co. Ltd., Shun Tak Holdings Ltd., Sun Hung Kai Properties Ltd., Swire Properties Ltd. and The Wharf (Holdings) Ltd. expressed their deep concern that in this case the Government had chosen not to follow the customary process with regard to land acquisition, consultation and open tendering in the entire proposition. This private deal may send all the wrong signals on how business is done in future.
2. The Group said it recognized that the Government's initiative for hi-tech industrial development, as a means to enhance the overall competitiveness of Hong Kong in the world economy, was very well intended. However, they also stressed that the fair and open implementation of such a policy or any policy was equally and just as important under the SAR Government. Implementation of such policy shall not infringe on the free market principle that has served Hong Kong through thick and thin in the past 50 years.

Apart from her people, the most precious resource of Hong Kong is undoubtedly the land available for development. Efficient allocation of land by means of public auction or tender has traditionally been a pillar of our free market approach that becomes the envy of the world. The Group is deeply concerned that the Cyberport Project as presented by the Government to the Legislative Council on 29 April 1999 deviates from that tradition. The general public of Hong Kong is owed (i) a convincing explanation as to why expediency should override principle and (ii) a clarification whether the Cyberport Projects sets a dangerous precedent for the granting of land to other private parties without auction or tender in future by applying the same "integrated development" argument.

The Group strongly believes that in any public land transaction in Hong Kong, transparency and fairness in form and in substance shall prevail over any other considerations.

3. The Group finds it hard to understand and accept why this entire matter has been so secretive which is markedly different from past experience. The Government did not carry out wide consultation on the Government's intention of establishing a special information-technology zone where residential development profits shall subsidize technological related development therein. In particular, the property element of approximately 4.2 million square feet in this deal is material and substantial. Even without any head start advantage, the Group or any member thereof surely could have been adequately able to come up with competitive alternatives to the current proposal. Cyberport as an integrated development project, while innovative, is not an unique invention that is beyond the management and financial capability of many other companies.
4. The deviation from the fundamental principle of competitive bidding process has negatively impacted on local and international investors' confidence on the presumption of level playing field available to all. The critical worry is that the principle of fair play is being side-stepped.
5. Given the gravity of the Government's announcement, the Group felt it was appropriate to record their concerns relating to certain aspects of the proposed Cyberport development in a recent submission through the firm of Vincent T. K. Cheung, Yap & Co., to the Financial Secretary Mr. Donald Tsang, J.P., on 21 April 1999.

Specific questions were put on the issues of the definition of 'cyber', why 'port' and why on 'Hong Kong Island' where land is most scarce and highly valuable.

The Group also had voluntarily put forward an accommodative alternative in the letter to help develop, without delay of time, the Cyberport as an 'integrated' package. Urging the Government to put the residential part of the project up for public tender and to protect any downside risk to the Government, it had made a commitment by underwriting a "minimum" reserve price of HK\$8 billion on the assumption that some 4.2 million square feet of gross residential area would be available for sale by public auction. This approach is consistent with the current reserve list of sites available for disposal by auction and thereby the principle of fair play. The Government can then allocate a portion of the proceeds to fund the development of the proposed Cyberport by the selected implementing company on a cost-plus-profit basis.

The Group urged the Government not to abandon the usual land sales procedures.

6. On 29 April 1999, Mr. K. C. Kwong, J.P., the Secretary for Information Technology and Broadcasting, presented the Cyberport Project to the Legislative Council. On page 18 of the Project paper, it is stated that "Under the Developer's Proposal, the Government will receive an up-front land premium, at a reserve price of \$8,000 MM, from property developers by auctioning off the ancillary residential property. The Government will then use \$5,000 MM for the construction of the Cyberport portion. The net proceeds to the Treasury will be \$3,000 MM of up-front cash."

The Group wishes to reiterate that \$8,000 MM is the minimum reserve price as clearly stated in their letter to the Financial Secretary. It was inappropriate to make a comparison of Receipt/Return Analysis between the Group's and the current proposal as such comparison simply did not present a true and fair view of the whole picture.

By neglecting other possibilities, the Government may miss an opportunity to realize a land value of up to HK\$18.5 billion on the assumption that around 4.2 million square feet of residential developments at the Telegraph Bay can be sold in auction at an average price of HK\$4,400 per square feet, which is a price in line with the recent April auction sale of a piece of North Point residential property.

7. The Group confirmed that there was no secret agreement with the Government on the acquisition of the Government's stakes in the Cyberport Project. Naturally, the Group would not object to any proposed packages of transference of the Government's shares in the project that could be considered by any interested parties, if such shares were to be disposed of through a fair and open process.
8. Also in response to enquiry, the Group reiterated that it was just as prepared to offer appropriate underwriting if the IT part of Cyberport was included in the package.
9. The Group emphasized that in the interest of the public, they offered their views openly for debate. They trust that their views are shared broadly by many in the community. The knowledgeable public can easily distinguish whether this is principally an IT project or a property project.
10. The Group is simply offering to underwrite a process which is reasonable and fair that will enable open access to all to ensure the principle of level playing field and at no risk to the Government. The Group confirmed that they were in dialogue with the Government as they have yet to receive satisfactory answers to the specific questions and points raised.

END/Monday, 10 May 1999

Hang Lung Development Co. Ltd. / Henderson Land Development Co. Ltd. /
HKR International Ltd. / Hongkong Land Ltd. / Hysan Development Co. Ltd. /
New World Development Co. Ltd. / Shun Tak Holdings Ltd. / Sun Hung Kai
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Cyberport a strategic infrastructure project for IT, services sector

In response to the views expressed by the 10 property developers on the Cyberport project this (Monday) evening, a Government spokesman said the Government has taken note of their views and would like to emphasise again the following points :

- * The Cyberport is a strategic infrastructure project for the IT and services sector.
- * It aims to create a strategic cluster of like-minded and innovative leading IT and services companies in Hong Kong in the shortest possible time.
- * The ancillary residential development is a means to raise finance for the project. Revenues will be ploughed back to fund the Cyberport project in the first instance. The Government will be the owner of the Cyberport on completion and will receive all future rentals as well as profits from the ancillary residential development.
- * It is not appropriate to refer to the Cyberport as just a land transaction.

Responding to the concerns of the group, the spokesman reiterates that :

- * The Cyberport does not set a precedent for the grant of land. Rather, there are previous examples of using ancillary residential development to help finance infrastructure projects.
- * The Government has explained the details of the whole arrangement, including the detailed financial analysis, to the Legislative Council's Information Technology and Broadcasting Panel and the Planning, Lands and Works Panel. Such information has been made public. There is no question of the Government being secretive about the matter.

The spokesman stressed that to ensure the highest chance of success, the Government's private sector partner for the proposed project must be :

- * a leading IT company which can ensure that the Cyberport's design and support services will meet the requirement of our target tenants;
- * itself going to be an anchor tenant at the Cyberport developing leading IT applications and services. This can ensure its continued interest in making the Cyberport a success and gives credibility in its marketing of the project;

* able to ensure the timely completion of the Cyberport, to specifications agreed by the Government; and

* willing to take on funding responsibility for the whole project as well as the risks of development.

"The Government's intention is to develop the project as an integrated package, whereas the letter of 21 April 1999 from Vincent T.K. Cheung, Yap and Co. to the Financial Secretary focused on the arrangement for the residential land, and it stated that 'the terms and conditions relating to the Cyberport, arrangements to ownership and operation and other details can then proceed on the same basis as presently envisaged'," the spokesman noted.

"In addition, the Government has taken note of the point that the proposal in the said letter is based on a minimum reserve price of \$8 billion for the residential land. We have reflected that the price quoted is the reserve price in the Government's paper to the Panel.

"The Government has maintained that its equity contribution, in the form of the residential land, will be valued at market price at the time of grant of development right. Scenarios involving different land value, including \$8 billion have been produced for reference in the Panel paper. If the market price well exceeds \$8 billion, this will be reflected in the valuation."

The spokesman emphasised that the main aim of implementing the Cyberport project is not to realise the maximum land value, although the market value will be fully reflected in the Government's share of equity contribution and the Government will be getting a reasonable return from the project, in addition to the completed Cyberport. "The Cyberport is a strategic step that Hong Kong should take in putting us on the global IT map and focusing investors' attention on Hong Kong," he added.

Since the announcement of the project, 10 leading international IT companies have signed up as anchor tenants. The spokesman said, "We have received very positive feedback from overseas investors through our overseas economic and trade offices and promotion tours by Hong Kong officials.

"Nearly 40 companies have registered interest in becoming tenants. We are in the process of establishing contact with these companies to ensure that the design and specifications of the Cyberport will meet their requirements.

"We are prepared to consider the best way of selling its equity stake in the Cyberport residential development to third parties. We will give this detailed consideration and come up with the best option in the next few months," he said.

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