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Legislative Council

LC Paper No. CB(1)1225/01-02
(These minutes have been
seen by the Administration)

Ref : CB1/PL/ITB/1

Legislative Council
Panel on Information Technology and Broadcasting

Minutes of meeting
held on Friday, 8 February 2002, at 2:30 pm
in Conference Room A of the Legislative Council Building

Members present :
Hon SIN Chung-kai (Chairman)
Hon Howard YOUNG, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Hon Eric LI Ka-cheung, JP
Hon CHAN Kwok-keung
Hon YEUNG Yiu-chung, BBS
Hon LAW Chi-kwong, JP
Hon Albert CHAN Wai-yip
Hon MA Fung-kwok

Members absent :
Hon Kenneth TING Woo-shou, JP
Dr Hon Philip WONG Yu-hong
Hon Emily LAU Wai-hing, JP
Hon Timothy FOK Tsun-ting, SBS, JP

Public officers attending :
Agenda Item IV

Miss Annie TAM, JP
Deputy Secretary for
Information Technology and Broadcasting (3)

Mr M T WONG
Chief Engineer (Cyberport), Information
Technology and Broadcasting Bureau

Agenda Item V

Mr Alan SIU
Deputy Secretary for
Information Technology and Broadcasting (2)

Miss Adeline WONG
Principal Assistant Secretary for
Information Technology and Broadcasting (D)

Mr Simon YAN
Assistant Director for
Information Technology Services

Agenda Item VI

Ms Gracie FOO
Principal Assistant Secretary for
Information Technology and Broadcasting (E)

Mr Y K HA
Assistant Director of Telecommunications (Support),
Office of the Telecommunications Authority

Clerk in attendance : Miss Polly YEUNG
Chief Assistant Secretary (1)3

Staff in attendance : Ms Debbie YAU
Senior Assistant Secretary (1)1

I Confirmation of minutes of meeting and matters arising
(LC Paper Nos. CB(1)963 and 1010/01-02)

The minutes of the Joint Panel meeting held on 20 December 2001 and of the Panel Meeting held on 14 January 2002 were confirmed.

II Date and items of discussion for next meeting
(LC Paper Nos. CB(1)994/01-02(01) & (02))

2. Members agreed to discuss at the next regular meeting of the Panel to be held on 11 March 2002 at 2:30 p.m. the item of "Review of the Electronic

Transactions Ordinance" proposed by the Administration. They also agreed that the other items to be included on the agenda of next meeting would be finalized later in consultation with the Chairman and the Administration.

III Papers issued since last meeting
(LC Paper No. CB(1)868/01-02))

3. Members noted that a paper "Mobile Telephone Coverage at Tin Fu Court, Tin Yuet Estate and Tin Hang Estate, Tin Shui Wai" (LC Paper No. CB(1)868/01-02) had been issued to members for information.

IV Progress of the Cyberport project
(LC Paper Nos. CB(1)994/01-02(03) and (04))

4. Members noted that a background brief on the subject had been prepared by the Secretariat.

5. The Deputy Secretary for Information Technology and Broadcasting (3) (DS/ITB (3)) introduced the Administration's paper on the subject (LC Paper No. CB(1)994/01-02(04)) and updated members of the latest progress as follows:

(a) On financing arrangements, Cyber-Port Limited (CPL), which was the Cyberport developer, had procured from an A-rated bank a cashflow guarantee, with the Government as the beneficiary, to cover the cashflow requirements for every next six months. The current cashflow guarantee for the period from 1 January to 30 June 2002 amounted to $1.7 billion.

(b) Regarding infrastructural works, upon the opening of the new Cyberport Road connecting the southern end of the Cyberport with Victoria Road in a few months' time, bus routes running from Cyberport to Central, and connecting Cyberport to Aberdeen would start to operate. The sewage treatment plant was under construction and was scheduled to come into operation upon the intake of the first batch of Cyberport tenants.

(c) Of the various phases (Phase CI, CIA, CIB, CII and CIII) of the superstructure construction, Phase CI was scheduled for completion by end March 2002. It was expected that the office would be handed over to the first batch of tenants on 2 April 2002 for fitting out. Agreement had been entered into with Le Meridien, an international hotel group to manage the deluxe hotel comprising 176 rooms to be constructed under Phase CIII.

(d) At its meeting on 8 February 2002, the Metro Planning Committee of the Town Planning Board had given approval for the 8 100m^2 of quality housing originally planned for CII of the Cyberport to be converted to low-rise office development under the new Phase of CIV.

(e) The state-of-the-art IT/Telecommunications infrastructure included optical fibers and a wireless network. An Integrated Radio System (IRS) providing comprehensive and reliable mobile communication service would be in place in April 2002. To be used by all six mobile network operators in Hong Kong, namely Hong Kong CSL Limited, Hutchison Telecommunications (Hong Kong) Limited, New World Mobility, Peoples Telephone Company Limited, SmarTone Mobile Communications Limited and SUNDAY Communications Limited, the IRS would accommodate all the networks, i.e. the Global System of Mobile (GSM), Personal Communication Network (PCN) and Code Division Multiple Access (CDMA) currently operating in Hong Kong and the forthcoming Third Generation Mobile Services (3G). An ubiquitous mobile coverage would be provided in the Cyberport.

(f) A total of 79 tenancy applications had been received todate. Among them, 39 had indicated preference for accommodation in CI. The first 78 applicant companies altogether had already applied for a total of 82 237 m^2, which accounted for 94% of the total lettable floor area of 87 500m^2. Individual companies whose applications were supported by the Committee on Admission of Cyberport Office Tenants (CACOT) were discussing the tenancy agreement and related matters such as alternative accommodation in subsequent phases, with Cyberport's leasing teams.

(g) On the advice of the CACOT, the University of Hong Kong (HKU) had been selected to operate the Cyberport Institute in the Cyberport. Major IT companies as industrial partners would collaborate with HKU in developing the curriculum, providing hardware and software support, arranging internship placement, offering instructors' training courses and scholarships. Postgraduate programmes for IT and non-IT degree holders would be launched by end 2002.

Financing arrangement

6. In view of the massive scale of the Cyberport project, <u>Mr Albert CHAN</u> sought information on the Government's past and future capital contributions, and the expected investment return. He urged that such information should be made more transparent to facilitate public scrutiny.

7. In this connection, DS/ITB(3) informed members that the Government had agreed with CPL at the time of the grant of Development Right that the Residential Portion Land Value of the Cyberport was $7.80098 billion, which already included the estimated cost of around $1 billion for infrastructural works. Pursuant to the Project Agreement, CPL was responsible for the total construction cost of both the Cyberport Portion and the Residential Portion. As at December 2001, it had already spent more than $1.6 billion on the project. DS/ITB(3) further explained that revenue would be derived from the sale of the units in the Residential Portion. After setting aside sufficient funds to meet the project expenses and at least $200 million for a Development Fund, surplus sales proceeds would be put under trust and shared by the developer and the Government according to their respective contributions. The Government's contribution was the Residential Portion Land Value at the time of the grant of Development Right to Pacific Century Group (PCG) while PCG's contribution would equal to the total amount it had contributed to the project. DS/ITB(3) said that the Administration would update members of the latest position of the financing arrangement in each progress report. Regarding details of the Project Agreement and related matters, the Chairman asked the Secretariat to re-circulate the relevant papers previously provided by the Administration in 2000 for members' information.

> (*Post-meeting note:* The Secretariat re-circulated the relevant papers for members' information vide LC Paper No. CB(1)1056/01-02.)

Tenancy matters and institutional arrangements

8. Noting that a total of 79 applications for tenancy had been received, Mr MA Fung-kwok enquired whether further information on the profiles of the prospective tenants was available. This included the number of overseas and local companies, the number of companies which were new to Hong Kong or which were to be relocated to the Cyberport from within the territory, the nature of their existing operation and their business activities in the Cyberport. Mr MA was concerned that instead of attracting overseas IT companies and bringing in innovation, the Cyberport was merely providing an alternative for office relocation for companies in Hong Kong in view of its better leasing conditions. This would defeat the objective of the Cyberport project and impact on the local property market. Mr Albert CHAN shared Mr MA Fung-kwok's concern. Recalling the controversy caused by the project, Mr CHAN was worried that the Cyberport would turn out to be another property development project competing for office tenants.

9. In reply, DS/ITB(3) advised that each company would be required to provide detailed particulars in the application form (at Annex D of the Administration’s paper) for consideration by CACOT. At this stage, the information supplied would only be used for the processing of the applications.

Therefore, the Administration considered it more appropriate to provide further details on the tenants after they had moved into the Cyberport in due course. Besides, some companies had already indicated that they would make announcements on their business plans in the Cyberport once they had signed the tenancy agreement.

10. Regarding the management of the Cyberport, the Chairman enquired about the composition and management structure of the management company for the Cyberport, especially the role of the Government. He also sought clarification on whether the IT/Telecommunication infrastructure, including the Cyberport optical network, would be open to other Fixed Telecommunications Network Service (FTNS) providers, in parallel to Pacific Century CyberWorks (PCCW).

11. In this regard, DS/ITB(3) clarified that the future building service management company as mentioned in the Administration's paper was a private sector company to be engaged to provide services on the Cyberport's building operation. The Hong Kong Cyberport Management Company Limited was a wholly-owned subsidiary company of the Financial Secretary Incorporated-owned Hong Kong Cyberport Development Holdings Company. It took a sub-lease of the Cyberport Portion from the Holdings Company and would operate the Cyberport in accordance with prudent commercial principles. The Administration would review the composition of its Board of Directors near mid 2002 upon the moving in of the first batch of Cyberport tenants. She also confirmed that the optical network mentioned by the Chairman would be open to all FTNS operators and tenants would be at liberty to choose their service providers.

Cyberport Institute

12. Mr Albert CHAN queried whether the Cyberport Institute was compatible with the original objective of the Cyberport. He was gravely concerned that the Administration was seeking to introduce new items to boost the attractiveness of the Cyberport without due regard to its stated objective.

13. In response, DS/ITB(3) confirmed that apart from creating a strategic cluster of leading IT companies, attracting and retaining IT professionals from all parts of the world, the Cyberport was a flagship project to put Hong Kong firmly on the global IT/IS map. As an IT infrastructural project, Cyberport would also be a place to nurture IT talents. An open invitation for proposals for designing an academic plan comprising a range of market-driven IT programmes for implementation at the Cyberport was issued in March 2001. DS/ITB(3) also referred to the Report of the Taskforce on IT Manpower published in July 2001, which supported the implementation of an academic plan in the Cyberport and saw the Cyberport internship programme as an initiative in grooming talent to support the many IT developments and related

businesses in Hong Kong. She further stressed that setting up the Cyberport Institute in the Cyberport would not require any changes to approved land uses. In fact, training opportunities offered by the Institute would provide trained IT manpower and help attract IT/IS companies to become tenants of the Cyberport.

14. Mr Albert CHAN questioned the source of funding for the Cyberport Institute. Mr YEUNG Yiu Chung also asked about the criteria in selecting HKU to run the Institute, and the academic level and intended intakes of the programme.

15. In response, DS/ITB(3) informed members a total of eight institutions had responded to the open invitation issued in March 2001. CACOT, comprising local and overseas academics from the Massachusetts Institute of Technology, Cambridge University and Australian National University, judged the proposal of HKU as the best. CACOT considered that the proposed programme should not overlap with existing courses offered by HKU. To ensure that the training would respond to market needs, HKU would be required to run the programme in collaboration with five founding industrial members, namely Cisco, IBM, Hewlett Packard, Microsoft and Oracle. At this stage, HKU was discussing with the partners to run two postgraduate programmes, one for graduates holding IT-related first degrees and the other for non-IT degree holders. The duration of the programmes would range from 200 to 300 hours.

16. Regarding the source of funding for the Cyberport Institute, DS/ITB(3) advised that the programmes would be run on a self-financing basis. It was expected that the majority of the participants of the programmes would be local people. The founding members of the Institute and other major IT companies would be encouraged to provide their corporate courses, hardware and software support, as well as scholarships for the Institute.

Admin

17. Summing up, the Chairman requested the Administration to provide in its next progress report further information on the tenants' profiles as requested by Mr MA Fung-kwok, so as to ascertain the nature of business of the Cyberport tenants and how far the original objectives of the Cyberport could be met. The Chairman also requested the Administration to provide information on the funding arrangements for the Cyberport Institute in its next progress report or when the information was available, whichever was earlier.

Admin

18. Members noted that the Administration would provide the Panel with the next progress report in July 2002.

V The administration of Internet domain names in Hong Kong
(LC Paper Nos. CB(1)994/01-02(05) and 1051/01-02(01)

19. The Principal Assistant Secretary for Information Technology and Broadcasting (D) (PAS/ITB(D)) introduced the Administration's paper on the subject (LC paper No. CB(1)994/01-02(05) and 1051/01-02(01)) and sought members' support for the proposed loan of $6.5 million from the Loan Fund to the Hong Kong Internet Registration Corporation (HKIRC). Members noted that the Administration planned to seek funding approval from the Finance Committee on 8 March 2002.

Establishment of the new HKIRC

20. As country-code top level domain ".hk" was a public resource and HKIRC would be the sole agent in administering the registration of domain names in Hong Kong, Mr MA Fung-kwok enquired about the working relationship between the Government and the HKIRC, which was a non-statutory body. The Chairman also asked about overseas practices for domain names registration.

21. In response, DS/ITB(2) confirmed that the proposed regime for administration of ".hk" domain names as set out in the paper was in line with international practice. The Government would endorse the application of the HKIRC to the Internet Corporation for Assigned Names and Numbers (ICANN) for its delegation to HKIRC to administer ".hk" domain name registration in Hong Kong. The HKIRC would be designated as the ".hk" domain name administrator with the mandate to exercise the registration functions and represent Hong Kong in international Internet fora. The tripartite working relationship amongst ICANN, the Government and the HKIRC would be set out in a Memorandum of Understanding (MOU) to be signed between the Government and the HKIRC. In the event that the HKIRC failed to perform its functions, the Government might revoke its endorsement. At the request of the Chairman, the Administration would provide members a copy of the MOU when it was ready.

Admin

22. The Assistant Director for Information Technology Services (AD/ITS) supplemented that apart from Hong Kong, Canada and Australia also adopted a similar arrangement of transferring the administration of domain names from an academic institution to an independent non-profit making body. In Canada, for example, the administration of Internet domain names had all along been undertaken by the University of British Columbia (UBC). Such functions were transferred to the Canadian Internet Registration Authority in the 1990s. In recognition of the contribution and investment by the UBC in setting up the Internet domain names registration regime, a sum of around CAD$4.5 million had been paid to the UBC when it transferred such function to the new

Authority.

23. In view that a non-statutory body might introduce policy changes simply by amending its constitution after internal deliberations, Mr LAW Chi-kwong was gravely concerned that HKIRC might engage in anti-competitive acts to monopolize the registration service. This would clearly not be in the public interest. Mr Albert CHAN expressed similar concern and remarked that since only a small membership fee was payable, the majority of individual members might not take an active interest in the operation of HKIRC, thus leaving major decisions to only a few members of the Board of Directors. He called for stringent monitoring to avoid possible malpractice such as appointing a chief executive officer (CEO) at excessively high pay and conflict of interest of the Directors in commissioning consultancy work. Mr MA Fung-kwok also cautioned that the Board might in future be dominated by large companies holding multiple domain names.

24. Referring to Annex III of the Administration paper, DS/ITB(2) assured members that as the Board of Directors of HKIRC would have wide representation, comprising 13 members from different classes (namely, the user, service provider, IT/Commerce industry, tertiary institution and the Government) representing inherently different interests, it was highly unlikely that any one or two parties would be able to manipulate policies in their favour. The Chairman also remarked that the small annual operating budget of HK$6.5 million might render any maneuvering difficult. PAS/ITB(D) further pointed out that the constitution of the HKIRC contained provisions to deal with conflict of interest of Directors awarding contracts. She also confirmed that one company would hold only one membership in the HKIRC irrespective of its number of registered domain names.

Funding for HKIRC

25. Noting that the number of ".hk" domain names registered had increased from 46 000 by end 2000 to 56 000 by end 2001, Mr Howard YOUNG sought information on the proportion opting for old and new policies, and the estimated number of accounts which would be needed to support HKIRC's operation on a self-financing basis.

26. In reply, DS/ITB(2) reported that among the 56 000 accounts by end 2001, there had been about 9 000 new registrations since June 2001 while around 8 000 existing domain name holders had opted for the new policies with the enhanced services. It was estimated that HKIRC would be able to break even with an annual intake of 9 000 new accounts. The proposed loan of $6.5 million was sufficient for HKIRC to meet its initial cashflow requirements and to make capital investment for the roll-out of new services in the initial years. AD/ITS supplemented that if there were a total of about 30 000 registration under the new policies, the annual fees payable by the holders of these domain names would provide enough funding for the projected annual expenditure of

some $6.5 million. As holders opting for the old arrangement would still be required to pay an amendment fee every time they requested for modification of name server information, AD/ITS said that more holders might be expected to opt for the new arrangement before the expiry of the option period in May 2002.

Payment and transfer arrangements between the Joint Universities Computer Center (JUCC) and HKIRC

27. In response to Mr YEUNG Yiu-chung's enquiry on the rationale for paying a sum of $10 million to the JUCC, DS/ITB(2) informed members that the said amount was agreed between JUCC and the HKIRC. The Board of First Directors of HKIRC considered this amount appropriate in recognition of JUCC's pioneering work and contributions in setting up the ".hk" domain name administration regime. In fact, the agreement took into account the value of the hardware equipment and database to be transferred from JUCC to HKIRC and the technical support which JUCC would continue to provide after the transfer.

28. Members supported the proposed loan of $6.5 million from the Loan Fund to the HKIRC.

VI Consultation on the reduction of licence fees for mobile carrier licences

(LC Paper No. CB(1)994/01-02(06))

Rate of reduction

29. Noting from the Trading Fund Report 2000-2001 of the Office of the Telecommunications Authority (OFTA) that the Development Reserve of the OFTA Trading Fund as at 31 March 2001 was $530 million vis-à-vis $446 million in 2000, and the profits before tax were $127 million and $165 million for 2001 and 2000 respectively, the Chairman urged the Administration to consider whether there was room for further reduction of the licence fees.

30. The Principal Assistant Secretary for Information Technology and Broadcasting (E) took note of the Chairman's view. She advised that the licence fee for mobile carrier licences had been reduced several times in recent years from $75 to $50 and then to the present $30, representing an accumulated 67% reduction. The Assistant Director of Telecommunications (Support), Office of the Telecommunications Authority further advised that OFTA's revenue amounted to $370 million in 2001, $44 million of which were income from interests on bank deposits. In anticipation that turnover and bank interests would be on a downward trend in the next one or two years, the projected rates of return might fall to 10%. As such, it might be necessary to

utilize OFTA's Development Reserve to meet the target return of 14.5%. The Administration had been progressive and forward-looking in the financial planning when the current fee reduction proposal was being formulated.

31. Members expressed support for the proposal to reduce the licence fees. They noted that the amendments to the Telecommunications (Carrier Licences) Regulation and the Telecommunications Regulation would be introduced to the Legislative Council as soon as practicable in order to effect the proposed reduction on 1 May 2002.

32. There being no other business, the meeting ended at 4:00 pm.

Legislative Council Secretariat
7 March 2002