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Panel on Information Technology and Broadcasting

Meeting on 10 January 2005

Background brief on Cyberport

Introduction

The Financial Secretary (FS) announced in the 1999-2000 Budget that the Government would proceed with the Cyberport project at Telegraph Bay, Pokfulam in cooperation with a private-sector company, i.e. the Pacific Century Group (PCG). The project, which comprises a Cyberport Portion and an ancillary Residential Portion, is scheduled for completion in phases between mid-2002 and mid-2004. 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 while the Residential Portion will generate revenue to drive the project.

2. The Government has set up three limited companies owned by the Financial Secretary Incorporated (the FSI companies) for undertaking the project. On 17 May 2000, the FSI companies signed the Project Agreement with Cyber-Port Limited, which is a company set up by PCG as the Cyberport developer responsible for the construction of the Cyberport Portion and the Residential Portion. The development right of the Cyberport was granted to the developer on 8 June 2000.

Financing arrangements

3. The Government is responsible for providing the necessary infrastructure for the Cyberport. Between May 1999 and December 2000, the Finance Committee approved funding totalling some $1.1 billion for the following works :

(a) Provision of roads, drains and the essential infrastructure for the Cyberport development;

(b) construction of the northern access road and associated drains and waterworks; and

(c) extension of water supply to Pok Fu Lam areas.

4. Pursuant to the Project Agreement, the Government's capital contribution was the Residential Portion Land Value at the time of grant of development right to the Cyberport developer while PCG's contribution would be the outturn of the peak funding requirement (Members have been informed of details of the Project Agreement vide LegCo Brief ITBB/CP303/2(00) dated 17 May 2000). The Residential Portion Land Value was $7.93 billion, which already included the estimated cost of $1.1 billion for infrastructural works. As at end May 2004, the Cyberport developer has contributed around $4.372 billion to the project.

5. After deducting the relevant expenses due and payable and contributing to a $200-million Development Maintenance Fund for up-keeping the Cyberport, the surplus proceeds from the sale of the residential units will be shared between the Government and the Cyberport developer according to their respective contribution to the project. Pending completion of the whole project, the Cyberport developer is required under the Project Agreement to procure from an A-rated bank a cashflow guarantee, with the Government as the beneficiary, to cover the cashflow requirements for every next six months.

Key developments

Superstructure construction

6. The Cyberport Portion is made up of four office buildings (respectively named Cyberport 1, 2, 3 and 4), a five-star hotel and a retail and entertainment complex. It is being completed in phases to provide a total of 94 100 sq m of lettable office space. All phases of the Cyberport Portion are scheduled for completion by end 2004.

Residential development

7. The Residential Portion of the Cyberport project is scheduled for completion in phases between September 2004 and mid-2007. According to the Administration's report in June 2004, all 1,204 Units in Phases RI and 215 units of the 300 units in Towers 1 to 3 of Phase RIII have been sold. Sale of the remaining phases will be launched in due course.

Related facilities

8. The Cyberport Institute, run by the University of Hong Kong, was opened in November 2003. In cooperation with corporate partners, the Institute offers post-graduate and professional diploma courses in areas such as IT project management, networking and multi-media technology.

9. A number of shared facilities are located in the "IT Street" of the Cyberport. Among them are the Digital Media Centre (DMC), Wireless Development Centre (WDC) and iResource Centre. The DMC and WDC have

received funding support from the Innovation and Technology Fund.

Tenancy position

10. According to the Administration's latest report, as at December 2004, 33 local, Mainland and overseas companies and organizations have leased Cyberport offices, resulting in an aggregate take-up rate of some 46% of the total lettable office space. 45% of the tenants are new to Hong Kong.

Institutional arrangements

11. On 5 June 2003, the Hong Kong Cyberport Management Company Limited announced the appointment of 10 non-government directors to its management board in addition to the two government officials serving on the board, namely, the Permanent Secretary for Commerce, Industry and Technology (Communications and Technology) and the Permanent Secretary for Financial Services and the Treasury (Treasury).

12. In October 2003, the Hong Kong Cyberport Management Limited announced the appointment of Mr Nicholas YANG as the Chief Executive Officer. The secondment of two government officers to serve as the Cyberport Coordinator and the Deputy Director (Construction & Development) to oversee implementation of the project ceased on 4 January 2004.

Major concerns expressed by Members

13. Members have followed closely the progress of the Cyberport project through discussion at the Panel and raising questions at Council meetings. Between June 1999 and January 2004, the Panel has reviewed the implementation of the project at 13 meetings. To acquire first-hand information on the various stages of development, the Panel visited the Cyberport on 5 December 2001, 8 July 2003 and 15 June 2004.

14. In reviewing the progress of the Cyberport project with the Administration, the Panel is seriously concerned about the effectiveness or otherwise of the Cyberport as a major IT infrastructure in Hong Kong. In the course of deliberation, members have raised a number of concerns for the Administration's consideration and follow-up.

Project implementation

15. In principle, members had no objection to building a Cyberport in Hong Kong. However, much controversy had arisen from the Government's decision to award the project to PCG without going through the usual competitive tendering process. While some members expressed agreement with the Administration's move to take forward the project promptly, some other members stated their strong dissatisfaction as the arrangement had deviated from the established procedures. Notwithstanding the Administration's explanation that

there was an urgency for Hong Kong to secure the first-mover advantage in the face of rapid developments in the IT industry and keen competition from neighbouring territories, some members considered that the Administration had set a bad precedent of using expediency as an excuse for circumventing the necessary procedures.

16. To address concerns about how the Administration would deal with similar projects in future, the Administration drew up some broad policy guidelines for implementing major development projects involving the private sector and briefed the Panel on Financial Affairs (FA) on 6 December 1999. The Administration confirmed that it would continue to follow an open, fair and competitive bidding process. Any deviation from the normal practice must be fully justified having regard to a number of ground rules, including the extent to which the proposed project complied with approved government policies, its assessed benefits, the time-sensitiveness of the proposed project and the proponent's ability to bring the project to fruition etc. Members of the FA Panel however did not consider the ground rules useful except to rationalize the Government's decision on the Cyberport and the Disneyland projects. The FA Panel also passed a motion objecting to the ground rules adopted by the Administration to justify a departure from the normal procedures.

Intended objective

17. The Panel was keen to ensure that the Cyberport project would serve its intended purpose of creating a strategic cluster and critical mass of IT/IS companies. Members were gravely concerned that instead of being developed as an IT flagship project, the Cyberport was in fact a property development project competing with other property developers in offering quality office and residential premises at attractive prices. Members considered that the Administration should take active measures to ensure that the business nature of the tenant companies was consistent with the Cyberport vision.

18. Members recalled that when introducing the proposed Cyberport in his 1999-2000 Budget, FS had anticipated that more than 12,000 jobs would be generated in Hong Kong. Smaller local companies would benefit greatly from working in close proximity with market leaders through the exchange of ideas and expertise in the latest technological advances and market trends. FS also informed Members that the Cyberport would generate demand for support services such as accounting, legal and other back-office functions, as well as provide quality products to upgrade Hong Kong's economic activities.

19. With a view to ascertaining whether the Cyberport project could fulfil its objective, members had from time to time sought updates on the profiles of the Cyberport tenants, in particular whether they were setting up new businesses/offices in Hong Kong by becoming Cyberport tenants, or simply relocating from other districts to the Cyberport. To facilitate consideration of how far the Cyberport could contribute to the growth of IT industry and job creation, the Panel also requested to be updated on the office space occupied by the tenants before and after they had become Cyberport tenants, as well as the

number of employees employed by them.

20. In this connection, the Administration stressed that prospective tenants were attracted to the Cyberport by its state-of-the-art facilities, campus-like environment and clustering effect. The Panel was informed that the prevailing rental plus management fees at the Cyberport were comparable and even higher than some office premises in districts where many IT/IS companies were located. At members' request, the Administration/Cyberport management had updated the Panel on a regular basis on the intake of tenants, their profiles and the number of staff employed. The Cyberport management also pointed out that as IT-related activities were not labour-intensive, due regard should also given to the new business activities generated in the Cyberport in considering the economic benefits brought about by the project.

<u>Related facilities</u>

21. Noting that a number of shared facilities, notably the DMC, WDC and iResource Centre, were available for use by Cyberport tenants, members were keen to ensure that such facilities would not duplicate similar services currently available in the market and would not compete with the private sector for business opportunities. On the purposes served by these facilities, the Administration/Cyberport management advised that these shared facilities, together with the world-class IT and telecommunications infrastructure at the Cyberport, would help reduce the capital and operating costs incurred by Cyberport tenants, which was important especially for small and medium enterprises engaged in IT and multi-media content creation. To allay concern about posing unfair competition, the Advisory Committee of the DMC had adopted a billing system whereby the market rates would be charged for facilities which were also available in the market. Where the facilities were not currently provided by the private sector (e.g. 3D scanning system), DMC would charge for their use at a cost-recovery basis.

<u>Return on the Government's investment</u>

22. Pursuant to the Project Agreement, the Cyberport developer will not obtain any right, title or interest in the land comprised in the Cyberport Portion and the Residential Portion. It will be required to hand back the completed Cyberport Portion to one of the FSI companies and to sell the units in the Residential Portion in the open market. The rental income and any other income to be generated from the Cyberport Portion belong to the three FSI companies. The Panel noted that pursuant to the Project Agreement, the surplus proceeds from the sale of the residential units will be shared between the Government and the Cyberport developer according to their respective contribution to the project. All along, members have been very concerned about the projected return on the Government's investment in order to ascertain whether public money had been put to good use.

23. In July 2003, the Administration advised the Panel that according to the latest forecast and subject to further valuation, the value of the Cyberport Portion

together with the Government's share of the surplus proceeds from the sale of the residential units would likely exceed its capital contribution of $7.9 billion. The exact amount of surplus proceeds to be received by the Government would depend on the number of residential units sold and the sale price of these units. As the Administration expected that the Government and the developer would start to share the surplus proceeds by end 2004/early 2005, it undertook to provide a more detailed report on the Government's investment return when its share of surplus proceeds from the sale of the residential units and other rental income were ascertainable.

Latest position

24. The Panel considers that since the Cyberport project has been up and running, it is the right time for the Administration to conduct an overall evaluation and report to the Panel on how far the project has been able to achieve its intended objective and anticipated benefits. The Administration has agreed to provide a comprehensive report on the Cyberport project for members' consideration in January 2005.

Council Business Division 1
Legislative Council Secretariat
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