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Panel on Information Technology and Broadcasting

Meeting on 8 May 2006

Background brief on Cyberport

Purpose

This paper summarizes the issues of concern raised by members in the course of monitoring the development of the Cyberport project in recent years.

Background

2. 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 the Pacific Century Group (PCG). The project comprises a Cyberport Portion and an ancillary Residential Portion, the revenue from which will be used to drive the project. The Cyberport Portion was practically completed in June 2004. According to the Administration's latest information, the Residential Portion is being completed in phases from September 2004 to mid 2008.

3. In late 1999, the Government set up three private and wholly-owned companies¹ under the Financial Secretary Incorporated (FSI) to oversee the implementation of 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 arrangement

4. 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 :

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

- (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.

5. Pursuant to the Project Agreement, the Government's capital contribution was the Residential Portion Land Value at the time of grant of development right 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 is \$7.93 billion, inclusive of the estimated cost of \$1.1 billion for infrastructural works. According to the Administration's report in January 2005 (paragraph 20 of LC Paper No. CB(1)588/04-05(01)), the capital contribution of the Cyberport developer to finance the construction costs and related expenses of the project is \$4.36 billion.

6. After deducting the relevant expenses due and payable and setting up reserve funds such as the Development Maintenance Fund, the surplus proceeds from the sale of the residential units will be shared according to the respective capital contribution of the Government (64.5%) and the developer (35.5%). As last reported by the Administration in January 2005, the first distribution of surplus proceeds was made on 9 August 2004.

Major concerns expressed by Members

7. 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 February 2005, the Panel has reviewed the implementation and progress of the project at 15 meetings. The Panel also visited the Cyberport on 5 December 2001, 8 July 2003 and 15 June 2004.

Concerns about the public-private partnership entered into with PCG

8. In principle, members had no objection to building a Cyberport in Hong Kong. However, much controversy had arisen from the Government's decision at the outset to award the project to PCG without going through the usual competitive tendering process. While some members concurred with the Administration's move to take forward the project promptly, some other members stated their strong dissatisfaction as the arrangement had deviated from established procedures. They were also concerned about the lack of transparency in selecting PCG as the private-sector partner. Notwithstanding the Administration's explanation that there was an urgency for Hong Kong to secure the first-mover advantage in the rapid development of IT and keen competition from neighbouring territories, some members maintained their concern that the Administration had set a bad precedent

of collusion with the business sector, and of using expediency as an excuse for circumventing the necessary procedures.

9. 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 Panel) on 6 December 1999. 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 such ground rules.

10. Following the publication of two newspaper articles authored by the Secretary for Commerce, Industry and Technology in January 2005, the Panel on Information Technology and Broadcasting (ITB Panel) held a special meeting on 2 February 2005 to re-examine the background leading to the decision to award the project development right to PCG in 1999. A number of fundamental questions were re-visited, including the Administration's justifications for partnering with PCG and rejecting the alternative proposal put up by other developers, the deliberative process, as well as how LegCo and its committees had previously been consulted on the project. The Panel requested the Administration to make available further information, notably records of its internal deliberations on the Cyberport project. Following the Administration's refusal to disclose further information, Hon LEE Wing-tat moved a motion at the Council meeting on 9 March 2005 that the Council exercised its powers under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to order the Administration to provide the requested documents. The motion was negatived.

Public missions

11. The Panel notes that one of the stated public missions of the Cyberport project is to create a strategic cluster and critical mass of leading information technology (IT) companies. Members are keen to ensure that the project would serve its intended objective of a flagship IT infrastructure, instead of becoming a property development project competing with other developers in offering quality office and residential premises at attractive prices.

12. 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 and that smaller local companies would benefit greatly from working in close proximity with market leaders. To ascertain how far the Cyberport could contribute to the growth of the IT industry and job creation, 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.

13. The Administration informed members that the prevailing rental plus management fees at the Cyberport were comparable and even higher than some office premises in districts where many IT companies were located. The

attractiveness of the Cyberport was its state-of-the-art facilities, campus-like environment and clustering effect, not low rent. On job creation, the Cyberport management's view is that as IT-related activities are not labour-intensive, the economic benefits of the project should also be considered in the light of the new and value-added activities generated in the Cyberport which are conducive to Hong Kong's development into an information economy.

Uptake of tenancy

14. Some members have questioned the reasons for waiving PCG's take-up guarantee (of not less than 20% and not more than 50% of office space) of office premises at the Cyberport and whether the waiver was in the interest of the Government. The Administration's advice was that the decision to drop the take-up guarantee was taken during the dot.com boom when there was overwhelming interest in the Cyberport. It might also be perceived to be excessive and over-dominating to allow a single company (i.e. PCG) to occupy up to 50% of the lettable space at a government-owned IT infrastructure.

15. The Panel noted from the Administration's last report in January 2005 that the Cyberport had attracted a total of 33 local, Mainland and overseas companies as tenants, accounting for an aggregate take-up rate of about 46% of the available office premises at that time. Members will also keep in view in the next progress report the Administration's anticipation that the occupancy rate of the Cyberport would rise steadily in the next 18 to 24 months with the improvement in the macro economy.

16. To make the best use of the state-of-the-art facilities available at the Cyberport, some members have asked the Administration to consider the feasibility of assisting young people to set up IT businesses in the Cyberport by way of, say, short-term tenancies. Another suggestion was for the Cyberport to collaborate with local tertiary institutions to offer incubation programmes in the Cyberport for young IT talents as they usually lacked the necessary resources to compete with established enterprises. The Administration noted members' views and advised that a Digital Entertainment Incubation cum Training Centre would be set up in the Cyberport, financed by the Innovation and Technology Fund and sponsorship from the industry.

Return on the Government's investment

17. At the meeting on 10 January 2005, the Administration advised the Panel of a forecast yearly internal rate of return² (IRR) at about 9.43% to 11.2%, which was calculated by comparing the Government's investment in terms of the estimated land value of the Cyberport Portion, the agreed land value of the Residential Portion and the cost of basic infrastructure (totaling \$8.44 billion) against the return to the Government in terms of the valuation of the Cyberport Portion (\$2.89 billion) and the anticipated total share of surplus sales proceeds to be received by the Government (\$11.4 billion). The range was due to the different

² Internal rate of return is the discount rate at which the present value of a series of investments is equal to the present value of the returns on those investments.

assumptions used in forecasting the average sales prices of the subsequent phases of residential development.

18. All along, members have been very concerned about the return on the Government's investment in order to ascertain whether public money has been put to good use. A member has expressed his disagreement with the methodology adopted by the Administration in deriving the anticipated IRR on its investment in the Cyberport project. He has considered that in addition to the land value of the Residential Portion at the grant of development right, the land value of the Cyberport Portion should also be taken into account when determining the Government's capital contribution to the project. There was the concern that had the land comprised in the Cyberport Portion been disposed of in other manners (such as land sale), a much higher return could have been yielded for the Government.

19. The Administration explained that since the land and buildings in the Cyberport Portion would be wholly owned by the Government, an assessment of the value of the land had not been made at the time of the grant of development right. It has also stressed that the most important return on the Government's investment in the Cyberport project is its 100% ownership of the Cyberport Portion, a critical piece of IT infrastructure for Hong Kong. Had the land of the Cyberport Portion been disposed of through other means, Hong Kong would not have a Cyberport as its flagship IT infrastructure.

Latest position

20. The Panel will receive the next progress report on the Cyberport, as well as its business plan for 2006-07, at the meeting to be held on 8 May 2006.

Relevant papers

21. A list of relevant papers is at the **Appendix**.

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of Public Works Subcommittee (PWSC) on 12 May 1999	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ Administration's paper ✧ Minutes of meeting 	FCR(1999-2000)12 FC199/98-99
Meeting of Establishment Subcommittee (ESC) on 9 June 1999	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ Administration's paper ✧ Minutes of meeting 	FCR(2000-01)22 FC159/99-00
Meeting of Panel on ITB on 12 June 2000	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ Administration's paper : "241WF Extension of water supply to Pok Fu Lam areas" ✧ Minutes of meeting 	PWSC(2000-01)67 PWSC31/00-01
Meeting of Panel on ITB on 11 December 2000	<ul style="list-style-type: none"> ✧ Administration's paper : "Progress of the Cyberport Project" ✧ Minutes of meeting 	CB(1)281/00-01(01) CB(1)410/00-01

Committee	Paper	LC Paper No.
Meeting of FC on 15 December 2000	<ul style="list-style-type: none"> ✧ Administration's paper ✧ Minutes of meeting 	FCR(2000-01)53 FC42/00-01
Meeting of Panel on ITB on 9 July 2001	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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	<ul style="list-style-type: none"> ✧ 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 	<p>EC(2002-03)1</p> <p>ESC33/01-02</p>
Meeting of FC on 24 May 2002	<ul style="list-style-type: none"> ✧ Administration's paper ✧ Minutes of meeting 	<p>FCR(2002-03)19</p> <p>FC16/02-03</p>
Meeting of Panel on ITB on 8 July 2002	<ul style="list-style-type: none"> ✧ Administration's paper : "Progress of the Cyberport Project" ✧ Background brief on Cyberport ✧ Minutes of meeting 	<p>CB(1)2172/01-02(02)</p> <p>CB(1)2172/01-02(01)</p> <p>CB(1)2429/01-02</p>
Meeting of Panel on ITB on 13 January 2003	<ul style="list-style-type: none"> ✧ Minutes of meeting 	<p>CB(1)846/02-03</p>
Meeting of Panel on ITB on 28 January 2003	<ul style="list-style-type: none"> ✧ Administration's paper : "Progress Report on the Cyberport Project (January 2003)" ✧ Background brief on Cyberport ✧ Minutes of meeting 	<p>CB(1)765/02-03(03)</p> <p>CB(1)626/02-03</p> <p>CB(1)985/02-03</p>
Meeting of Panel on ITB on 21 July 2003	<ul style="list-style-type: none"> ✧ Administration's paper : "Progress Report on the Cyberport Project (July 2003)" ✧ Background brief on Cyberport ✧ Minutes of meeting 	<p>CB(1)2214/02-03(01)</p> <p>CB(1)2214/02-03(02)</p> <p>CB(1)2385/02-03</p>

Committee	Paper	LC Paper No.
Meeting of Panel on ITB on 12 January 2004	<ul style="list-style-type: none"> ✧ 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 	<p>CB(1)710/03-04(03)</p> <p>CB(1)581/03-04</p> <p>CB(1)2232/03-04(01)</p> <p>CB(1)1044/03-04</p>
Meeting of Panel on ITB on 10 January 2005	<ul style="list-style-type: none"> ✧ Administration's paper : "Report on the Cyberport Project (December 2004)" ✧ Background brief on Cyberport ✧ Minutes of meeting 	<p>CB(1)588/04-05(01)</p> <p>CB(1)623/04-05</p> <p>CB(1)816/04-05</p>
Meeting of Panel on ITB on 2 February 2005	<ul style="list-style-type: none"> ✧ 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 	<p>CB(1)817/04-05</p> <p>CB(1)864/04-05(01) Revised</p> <p>CB(1)943/04-05(01)</p> <p>CB(1)1053/04-05</p>