

ITEM FOR FINANCE COMMITTEE

CAPITAL INVESTMENT FUND

HEAD 962 - INDUSTRY

New Subhead “Equity in the Hong Kong Cyberport Development Holdings Limited for the Cyberport Expansion Project”

Members are invited to approve –

- (a) a commitment to inject \$3,834 million as equity from the Capital Investment Fund to the Hong Kong Cyberport Development Holdings Limited; and
- (b) a guarantee by the Government for a commercial loan amounting to \$1,191 million to the Hong Kong Cyberport Management Company Limited

for the Cyberport expansion project.

PROBLEM

The existing space and facilities at Cyberport are insufficient to meet the growing demands of start-ups and to foster the development of Innovation and Technology (I&T) in Hong Kong in the long run.

PROPOSAL

2. We propose to create a commitment to inject \$3,834 million as equity from the Capital Investment Fund to the Hong Kong Cyberport Development Holdings Limited (HKCDHL)^{Note} and to provide a guarantee by the Government

/for

^{Note} Established in 1999, HKCDHL is a private company wholly-owned by the Government to implement the Cyberport Project. Hong Kong Cyberport Management Company Limited, HKCDHL's wholly-owned subsidiary, is responsible for management of the Cyberport campus and implementation of the public mission programmes.

for a commercial loan of \$1,191 million for Hong Kong Cyberport Management Company Limited (HKCMCL), a wholly-owned subsidiary of HKCDHL, to pursue the Cyberport expansion project.

JUSTIFICATION

Policy Commitment

3. I&T development injects new impetus into the economy and improves people's quality of life, and is among the top policy agenda of the Government. Providing technological infrastructure is one of the eight major areas for promoting I&T development of the current-term Government. In the 2019-20 Budget, the Financial Secretary announced the development of Cyberport 5 to attract more quality technology companies and start-ups to set up their offices in Cyberport and provide a pathway for young people to pursue a career in I&T.

Current Position of Cyberport

4. As the flagship for Hong Kong's information and communications technology (ICT) industry, Cyberport strives to promote the development of the overall I&T ecosystem in Hong Kong. Over the years, through providing financial and professional support, as well as organising various programmes and events, Cyberport has been nurturing start-ups, inspiring and encouraging young people in pursuing a career in the I&T sector, and creating business opportunities for the industry. It is now home to over 800 I&T companies, start-ups and related companies, forming a diverse and vibrant I&T ecosystem.

5. Cyberport currently has four office buildings, providing a total gross floor area (GFA) of 119 000 square metres (sq. m) (and lettable area of around 98 000 sq. m). The capacity of these facilities is already saturated, with the occupancy rates of office and co-working space therein consistently maintaining at high levels of 90% and 95% respectively. Due to the limited space on campus, many start-ups with potential could not be admitted to Cyberport, rendering them unable to benefit from the various support programmes. We expect the demand from start-ups to set foot in Cyberport will remain strong.

6. In addition, the largest conference facility in Cyberport at present can only accommodate a maximum of 300 persons, which is inadequate in hosting regional or international conferences and events. There is a genuine need for a sizable multi-function hall to host large-scale regional and global events to strengthen Cyberport's role as the I&T hub in Hong Kong.

7. In view of limited and costly access to data services platform in Hong Kong, there is also a need for Cyberport to set up a data services platform for providing convenient and flexible cloud data services, safe server rooms and related ancillary facilities to meet the needs of start-ups which place great emphasis on quality storage and privacy (such as Fintech start-ups) to facilitate their development and testing of new products.

8. As the flagship of Hong Kong's ICT industry, it is imperative for Cyberport to have sufficient capacity to continue to attract more I&T companies as well as multi-national corporations to set foot at Cyberport and in Hong Kong to enhance our I&T ecosystem and to maintain our competitiveness vis-à-vis I&T parks in other cities in the region.

Economic Benefits of the Cyberport Expansion Project

9. According to the consultancy report on "Economic Impact Assessment" commissioned by HKCMCL, the contribution of the expansion project to Hong Kong's economy is estimated to reach around \$3.2 billion per year upon completion of the project (including direct, indirect and induced impacts) and around 6 100 jobs will be created. Contribution of the construction works to the economy is estimated to be around \$1.1 billion and around 1 100 jobs will be created.

IMPLEMENTATION PLAN

Scope and Programme

10. The Cyberport expansion project involves construction of a new office building (Cyberport 5) at a waterfront site of approximately 1.6 hectares northwest of the waterfront park and opposite the existing Cyberport Arcade (see site plan at Enclosure 1).

Encl. 1

11. The new ten-storey (including the rooftop) office building, at a maximum height of 58 metres above the Hong Kong Principal Datum, provides a GFA of about 66 000 sq. m. The facilities in the building include office, co-working space, a data services platform, a multi-function hall and ancillary facilities. Details of the facilities are as follows –

/Facilities

Facilities	Estimated GFA (sq. m)
Office and co-working space	36 000
Data Services Platform	10 500
Multi-function hall	1 300
Ancillary facilities	5 900
Others (covered walkway, driveway, pick-up/drop-off points)	12 300
Total	66 000

Office and co-working space

12. Cyberport 5 will provide an additional GFA of 36 000 sq. m of office and co-working space, representing about 30% of the total floor area of office and co-working space currently at the campus. They will be equipped with advanced smart office facilities which meets the working modes of the next generation digital technology enterprises and their online-to-offline business needs. In the coming few years, Cyberport will continue to drive the development of cutting-edge technologies including artificial intelligence, big data, blockchain and cybersecurity, and promote collaborations between Hong Kong and the cities in the Greater Bay Area.

Data services platform

13. A data services platform will be set up in Cyberport 5 to provide convenient and flexible cloud data services, safe server rooms, and relating ancillary facilities for Cyberport's start-ups to facilitate their development and testing of new products. The platform can also offer suitable facilities and environment for promoting and enhancing cybersecurity training for the industry and provide crisis management simulation.

Multi-function hall

14. A flexible approach in building the multi-function hall will be adopted to allow for adjustment of the hall capacity having regard to the scale of events. The hall can accommodate up to 800 persons and will be equipped with advanced and comprehensive facilities and technologies, such as video-conferencing, live broadcasting and ICT facilities.

/Ancillary

Ancillary facilities

15. Part of the floor space of the new office building will be designated as a smart living demonstration hall for showcasing I&T applications. Space will be reserved for facilities such as different types of food and beverages services, convenience stores and retail shops etc. to serve the Cyberport community and nearby residents. Cyberport will also designate part of the floor space as open space for use by the public. Moreover, Cyberport will actively introduce facilities and services with smart living elements. Equipped with an automated car parking system, Cyberport's carpark will be placed in the two levels of basement to minimise above-ground building height. Furthermore, we will enhance the environment and facilities of the existing waterfront park by constructing a waterfront promenade, re-laying turf, adding pet-friendly and smart facilities as well as landscaping for public enjoyment.

16. Total development cost of the expansion project is estimated at \$4,792 million at Money-of-the-Day (MOD) prices, with cost breakdown set out below –

Items	Estimated cost (\$ million) (in MOD prices)
(a) Site works (site investigation and tree felling)	11
(b) Foundation works (including construction of piles and all related works)	249
(c) Basement (including basement enclosure, waterproofing and excavation works)	265
(d) Construction of substructure and superstructure of the Cyberport 5 building	1,914
(e) Building services for Cyberport 5 (including installations of electrical, ventilation and air-conditioning, fire services, lift and escalator and other specialist installations)	1,204
(f) External works (including external pavings, hard and soft landscape and pedestrian linkbridge)	137
(g) Additional energy conservation, green and recycled features	65
(h) ICT facilities	112
	/(i)

Items	Estimated cost (\$ million) (in MOD prices)
(i) Cyberport waterfront park enhancement works	173
(j) Road junctions improvement works	37
(k) Consultancy fees	208
(l) Contingencies	417
Total	4,792

17. Subject to approval of this Committee, the construction works will commence in the fourth quarter of 2021 for completion by 2025 at the earliest.

Proposed financial arrangements

18. We propose that 80% of the construction cost be financed by Government equity into HKCDHL, which will in turn transfer the amount to its wholly-owned subsidiary, HKCMCL, to carry out the expansion project. The remaining 20% will be financed by commercial loan to be taken out by HKCMCL. The proposed financial arrangement for the project is as follows –

	Estimated % of total development cost	\$ Million
Government equity	80	3,834
Commercial loan with government guarantee	20	958
Total	100	4,792

19. Separately, HKCMCL plans to support the early operating expenses of Cyberport 5 through commercial loan of around \$233 million. Combined with the commercial loan for the construction cost as set out above, the total amount of commercial loan will be around \$1,191 million. We also recommend that the Government provide guarantee for the commercial loan to enable HKCMCL to obtain more favourable terms. In determining the above financial arrangement, we have taken into account HKCMCL's overall financial position, projected income and expenditure, planned capital works projects and new initiatives in the coming years, as well as the need to maintain adequate cash balance to cater for operational needs and unforeseen circumstances.

20. All along, Cyberport's income from its office, retail and hotel operation has been adequate in covering its operating costs, and has given rise to a small surplus which has been accumulated in its reserve to cater for unforeseeable needs. Over the past two years, due to the impact of the social incidents and the coronavirus disease 2019 (COVID-19) pandemic, Cyberport's income has reduced and it was necessary to deploy the reserve to cover the shortfall. In addition, Cyberport has provided three rounds of rental concession to its tenants and start-ups in the period from 2019 to 2021, two rounds of which amounting to \$100 million was funded from Cyberport's reserve. Hence, at present, Cyberport only has a disposable reserve of about \$200 million, which is insufficient to finance the Cyberport expansion project. Looking ahead, with the stabilisation of the COVID-19 pandemic and the re-opening of hotel facilities after renovation, we expect that Cyberport (including Cyberport 5) will earn sufficient income for repayment of the commercial loan for the expansion project. HKCMCL's cashflow projection is at Enclosure 2.

Encl. 2

FINANCIAL IMPLICATIONS

21. Subject to Members' approval of the proposed equity injection, the tentative timetable for equity injection into HKCDHL is as follows –

Financial Year	Proposed equity injection (\$ million)
2021-22	238
2022-23	446
2023-24	714
2024-25	1,921
2025-26	515
Total	3,834

22. The Government will assume a contingent liability for guaranteeing a commercial loan of \$1,191 million to be taken out by HKCMCL.

23. The project has no recurrent financial implications for the Government. HKCMCL will be required to exercise due care to control the overall project cost. In the event that the project cost exceeds the current estimate, HKCMCL is expected to bridge the funding gap using its own resources.

/CONTROL

CONTROL MECHANISM

24. HKCMCL conducts its business according to prudent commercial principles within the overall objectives and guidelines set by the Government. It has put in place a control mechanism to monitor the Cyberport expansion project via the relevant committee under the Board of Directors (the Board). The tendering procedures for consultancy and works contracts will follow Government's procedures and practices as far as practicable in public works projects. The Government will monitor the progress through the Board and the relevant committee. We will also hold regular meetings with the Cyberport management team to review the overall operation of Cyberport and progress of the expansion works, including the use of funds and the financial position of the company.

PUBLIC CONSULTATION

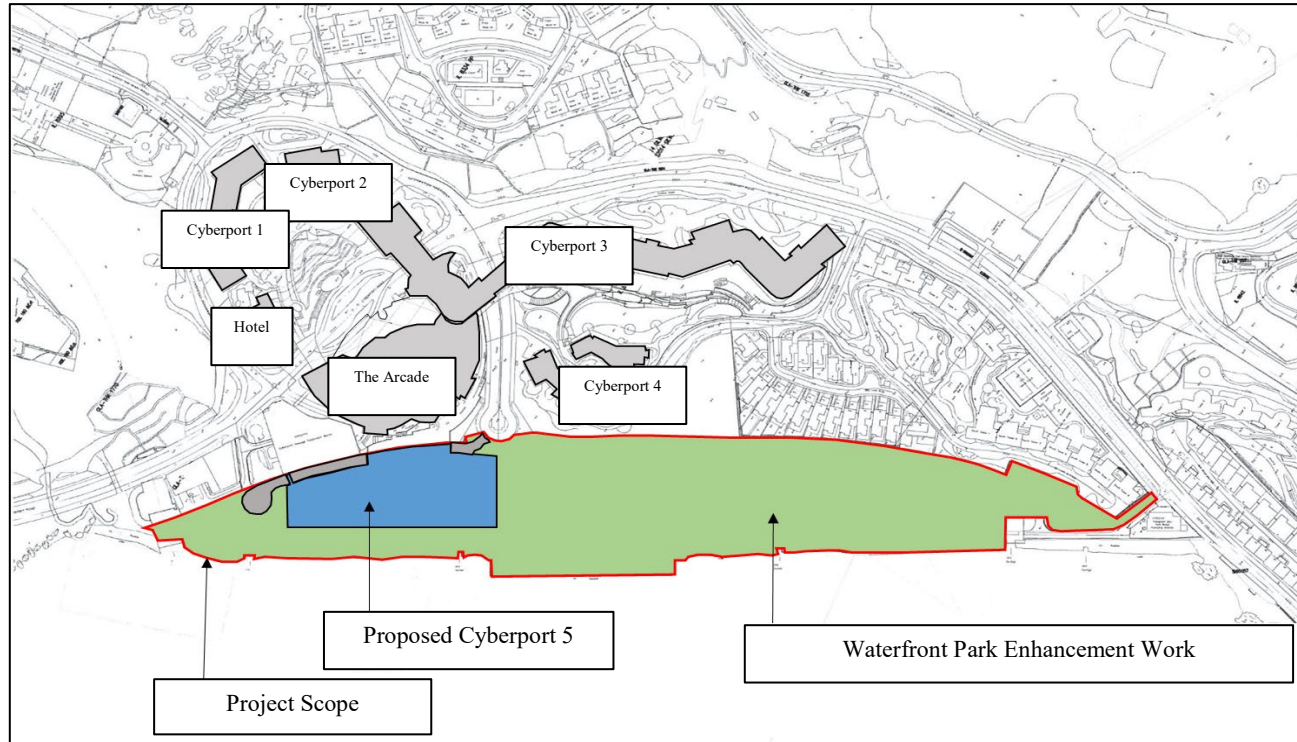
25. The then District Development and Housing Committee of the Southern District Council (SDC) was consulted in May and July 2019 and members were generally supportive of the project. Some members have expressed concerns on the traffic and visual impact of the project. Having regard to the comments, we have reduced the building height by one-storey (around 3 metres) to reduce the visual impact of the project. As for traffic impact, HKCMCL has engaged a consultant to conduct a traffic impact assessment study for the project. It is found that the implementation of this project would not cause unacceptable impact to traffic in the vicinity after junction improvement works at four nearby junctions. We have also updated the relevant committee of the SDC on the latest progress of the project by circulation of a paper in early May 2021.

26. We briefed the Panel on Information Technology and Broadcasting on 10 May 2021. Recognising Cyberport's efforts in nurturing I&T start-ups, Members supported the proposed funding application.

BACKGROUND

27. Established in 1999, HKCDHL is a private company wholly-owned by the Government to implement the Cyberport Project to support and promote I&T development in Hong Kong, with a continuous focus on digital technology start-ups and companies in the ICT sector. The operation of the Cyberport campus and implementation of the public mission programmes are undertaken by HKCDHL's wholly-owned subsidiary, HKCMCL.

Site Plan of the Cyberport Expansion Project



Cyberport Expansion Project :

- Cyberport 5 Site Area : around 1.6 hectares
- Waterfront Park Site Area : around 4.8 hectares

Enclosure 2 to FCR(2021-22)26

Cash Flow Projection of Hong Kong Cyberport Management Limited (in \$ million)

	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>	<u>2029-30</u>	<u>2030-31</u>	<u>2031-32</u>	<u>2032-33</u>	<u>2033-34</u>
Opening cash balance	1,210	603	1,380	1,293	1,215	1,153	155	193	279	327	381	452	531	615
Net cash flow	(607)	(379)	(58)	(49)	(33)	(11)	67	115	77	83	100	108	113	120
Net cash available for funding Cyberport expansion project construction	603	224	1,322	1,244	1,182	1,142	222	308	356	410	481	560	644	735
Development costs of Cyberport expansion project*		(238)	(446)	(714)	(1,921)	(1,473)								
Government equity injection*		238	446	714	1,921	515								
Commercial loan guaranteed by the Government*		1,191												
Commercial loan interest		(35)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
Ending cash balance	603	1,380	1,293	1,215	1,153	155	193	279	327	381	452	531	615	706

* The total financing will be \$5,025 million, including government equity injection of \$3,834 million and a commercial loan of \$1,191 million with government guarantee. This will be used to pay \$4,792 million in development cost of Cyberport expansion project and \$233 million in early operating expenses of Cyberport 5.

Details of Government's financial support in various form (\$ million) –

<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>Total</u>
1,429	446	714	1,921	515	5,025
