

Information Technology and Broadcasting Panel

Report on the Cyberport Project (December 2004)

Purpose

This paper outlines the progress made by the Government and the Cyberport management in fulfilling the missions of the Cyberport as an information infrastructure project; and evaluates the return on investment made by the Government in the project.

Background

2. The prime objective of the Government in undertaking the Cyberport project is to support and promote innovation and technological development in Hong Kong through the creation of a strategic cluster of information technology (IT) and related companies as well as a critical mass of professional talents in the territory. The Cyberport comprises two portions: the Cyberport Portion has four office buildings, a hotel and an arcade; and the Residential Portion provides revenue to drive the project. The Cyberport Portion was practically completed in June 2004, while the Residential Portion is being completed in phases from September 2004 to end 2007. 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.

Public Missions

3. The Government and the Board of the Hong Kong Cyberport Management Company Ltd (HKCMCL), the company responsible for managing the Cyberport Portion, have set for the Cyberport the following public missions -

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) To create a strategic cluster of quality IT and IT related companies critical to the development of Hong Kong into a leading digital city in the region;
- (b) To nurture and support the development of small and medium IT enterprises as an essential constituent of such a strategic cluster;
- (c) To provide a state-of-the-art infrastructure conducive to the creation of such a strategic cluster and its development;
- (d) To develop a regional center of excellence for IT and digital media training for creating human capital in IT through collaboration and partnership with the industry, academia, and research institutes and professional bodies;
- (e) To spearhead the development of the digital media industry through the provision of hardware, software and technical support in the Digital Media Centre; and
- (f) To promote the development of services and applications for wireless and mobile communications leveraging on Cyberport's excellent infrastructure and synergy.

4. We have been pursuing these missions vigorously since the in-take of the first batch of Cyberport tenants in late 2002. The progress made is summarized in the ensuing paragraphs.

Creating a strategic IT cluster

5. Supported by a state-of-the-art IT and telecommunications infrastructure, the Cyberport has so far attracted 33 local, Mainland and overseas companies as tenants. These companies engage in a variety of IT and related businesses, including the development of software, wireless/mobile applications, geographical information service (GIS) products and information security solutions; the provision of e-commerce, telecommunication and information services; as well as the creation of digital and multimedia content. All applications for Cyberport tenancy

are considered and approved by the Committee on Admission of Cyberport Office Tenants (CACOT). The committee, which comprises international and local experts, has so far considered 127 applications and rejected eight, mainly on the ground that their business profile does not fit in with the objective of the Cyberport.

6. A list of the Cyberport tenants is at Annex A. All of them are respectable IT and IT related firms and the activities conducted by them are consistent with the missions of the Cyberport. 45% of the tenants are new to Hong Kong, thereby creating new business and employment opportunities for the community.

7. The 33 tenants take up 74% of the space in Cyberport 1, 98% of Cyberport 2 and 20% of Cyberport 3. The aggregate take-up rate for the three buildings is about 46% (and about 42% if Cyberport 4 is included). Since their establishment in Cyberport, the Cyberport tenants have increased their employee headcount by 8.7% and their leased floor area by 16%. If additional expansion area under negotiation is taken into account, the total floor area growth of existing tenants would be as high as 50%. These growth data can be generally taken as an indication of business expansion among the existing tenants. With the improvement in the economic environment and the gradual increase in the international awareness of Cyberport, we envisage that the occupancy rate will increase steadily in the next 18-24 months.

8. The collaboration with our strategic partners in promoting the Cyberport overseas and on the Mainland has proven to be useful in raising awareness about the project and building contacts with potential tenants. Looking ahead, HKCMCL will continue to cooperate with partners such as Invest Hong Kong, the (Mainland and overseas) Hong Kong Economic and Trade Offices, Hong Kong Trade Development Council, Hong Kong Productivity Council and the Science Park in promoting the Cyberport as the IT flagship of Hong Kong both on the Mainland and overseas.

Providing infrastructure and technical support to SMEs

9. Digital entertainment and wireless/mobile applications are the two technological areas identified in the 2004 Digital 21 Strategy for focus development. To spearhead the development of the two industries, the Cyberport provides important infrastructure and technical support through its Digital Media Centre (DMC), iResource Centre and Hong Kong Wireless Development Centre (HKWDC).

10. The DMC, opened in March 2004, provides high-end post-production facilities (e.g. motion capture and 3D scanning systems) and technical services to local companies at affordable costs. The Centre is an important part of the infrastructure supporting the further development of the digital entertainment industry, in particular the SMEs and freelancers who could not afford to buy the expensive equipment. Furthermore, to nurture local talents in Xbox games development, the DMC will host an Xbox Games Incubation Centre. Participants of the Xbox Games Incubation Programme, launched in October 2004, will make use of the facilities of the Incubation Centre to develop their own Xbox titles under the guidance of a professional game producer.

11. To complement the DMC, the iResource Centre, opened in May 2004, provides a wide range of IT and multimedia resources, including a digital content library, industry research reports from International Data Corporation (IDC) and Gartner, business information search via Wiser and Factiva, and numerous sound tracks. The Centre now has over 1,400 registered members and on average 480 visits per month. To support the Xbox Games Incubation Programme, it has recently set up a game testing zone. Moreover, the Innovation and Technology Fund (ITF) has approved funding (\$5.30 million) in September 2004 to Cyberport for the development of a unified digital asset management platform for the local creative industries. The establishment of the platform will greatly facilitate the sharing and trading of digital assets and significantly strengthen Hong Kong's position as a centre for the creation, management and distribution of digital content. The project is scheduled for completion in February 2006.

12. The HKWDC, opened in December 2003, provides a central testing platform and marketing/technical support for wireless application

developers, including those in mobile game development. The Centre was run by the Hong Kong Wireless Technology Industry Association (WTIA) and received funding support from the ITF. As at 15 December 2004, HKWDC has recruited 98 corporate members, which account for over 40% of the wireless and mobile application developers in Hong Kong. In the past six months, the Centre has signed five Memoranda of Understanding (MOUs) to collaborate with local and overseas wireless research institutes and companies and to facilitate development of mobile applications. Moreover, the Centre has implemented three wireless and mobile development platforms developed in Canada, the USA and Hong Kong respectively – these platforms will help reduce the development cost and shorten the rollout time for new mobile applications.

13. The above infrastructure and services are essential to supporting the continuous development of the local IT and digital entertainment industries, in particular the SMEs which can ill afford the initial investment in expensive equipment and have difficulties in accessing the network of all six local mobile operators. Looking ahead, the Cyberport will continue to strengthen its support for the two focus areas through, for example, equipping the DMC with additional equipment much needed by the digital entertainment industry, supporting the launch of a “Cyberport 3G Community” project to nurture developers of 3G applications in Hong Kong, and exploring the possibility of setting up an incubation and training programme targetted at digital entertainment.

Nurturing IT talents and promoting professional development

14. Since its opening in November 2003, the Cyberport Institute of the University of Hong Kong has been providing postgraduate programmes that are attuned to the needs of the local economy. These include a Postgraduate Diploma in Information Technology, which is a conversion programme for graduates from other disciplines to acquire IT skills for their career advancement; and a programme to train IT specialists in Network Technologies, Knowledge Management, Project Management and Wireless Applications. The Institute has secured the support of prominent industry partners such as Cisco, Intel, PCCW, IBM,

HP, Oracle, Microsoft and the WTIA. Moreover, the Institute has been running monthly IT seminars for the public in collaboration with professional bodies such as the Internet Professionals Association, Hong Kong Information Technology Federation and the Hong Kong Knowledge Management Society to promote public awareness of latest developments in IT and its application.

15. Apart from the formal education and training provided by the Cyberport Institute, the Cyberport is becoming one of the major venues for IT and digital entertainment related conferences in Hong Kong and Asia. From 2002 to date, over 190 events have been held in Cyberport, with almost 15 000 participants taking part in the events. These include 95 regional and local conferences and 38 product launching and ceremonies. Some of the more prominent events include (a) the first Digital Entertainment Leadership Forum (DELFF) held in April 2004, where world-renowned experts from Hollywood and Hong Kong shared their experience and insights with over 200 participants from the local industry and academia; (b) the Global ICT Summit held in May 2004, which was attended by over 500 participants from around the world; (c) the Cyberport Venture Capital Forum, which featured speakers from top global venture capital firms and successful entrepreneurs, held on 7 December 2004 and attended by over 300 participants from the Asia Pacific region; and (d) the “ICT Day at Cyberport” held on 10 December 2004 and attended by over 100 delegates of the Asia Pacific ICT Awards 2004 (APICTA). These events not only gave IT and digital entertainment professionals the opportunities to exchange views with local and overseas experts/counterparts, they also enabled our overseas visitors to see for themselves the IT flagship of Hong Kong. With the completion of the Cyberport Conference and Exhibition Centre (Cyberport CEC) in May 2004, many more local and regional events, particularly those in the information and communications technology (ICT) field, will be held in Cyberport.

Facilitating exchange and cooperation

16. In June 2004, the Cyberport signed a strategic cooperative agreement with Shenzhen Hi-Tech Industrial Park (SHIP). Under this

agreement, Cyberport will enter into various forms of cooperation, including joint development of innovative IT applications, marketing and professional development activities. As the first joint promotional effort, the Cyberport co-exhibited with SHIP at the China Hi-Tech Fair held in Shenzhen on 12-17 October 2004. Ten Cyberport tenants and several potential tenants were invited to visit SHIP and attend the Fair on 12 October 2004.

17. The Cyberport will explore further opportunities to strengthen its ties with relevant hi-tech parks on the Mainland and overseas, develop collaboration opportunities and attract potential tenants to the Cyberport.

Return on Investment of the Cyberport Project

Financial Status of the Cyberport Companies

18. The Hong Kong Cyberport Development Holdings Limited (HKCDHL), the holding company, received the land grant for the development of the Cyberport project in May 2000. It subsequently sub-leased the Cyberport Portion to its subsidiary, the HKCMCL, and assigned the Residential Portion to another subsidiary, the Hong Kong Cyberport (Ancillary Development) Limited (HKCADL). The HKCDHL and its two subsidiaries are collectively known as the Cyberport Companies.

19. As at end March 2004, the Cyberport Companies have recorded an accumulated operating loss, on a cash basis, of \$90.8 million (\$203 million if depreciation is included). The consolidated profits and loss accounts and consolidated balance sheets of the HKCDHL and its subsidiaries for the 2000/01 to 2003/04 financial years are at Annex B². The initial operating loss for an information infrastructure of that scale is understandable. On the expenditure side, while the Cyberport Portion is being opened in phases (from mid-2002 to late 2004), the engagement of a variety of services providers (e.g. cleansing, security, property

² The contents of Annex B are extracts from the consolidated audited accounts of the HKCDHL, which include the accounts of the HKCDHL and its subsidiaries.

management, IT and telecom services) is required from the initial period to ensure the efficient and effective operation and maintenance of the buildings and facilities. On the income side, it takes time for the Cyberport to build up sufficient awareness at the international level and create the critical mass of IT and IT-related tenants, bearing in mind the self-imposed restrictions on the admission of office tenants (see paragraph 5 above). The Cyberport has made concrete and substantial promotional efforts in the past two years, as outlined in the preceding paragraphs. The operating loss, on a cash basis, of the Cyberport Companies in the first five years after the practical completion of the Cyberport Portion (i.e. from June 2004 to June 2009) will be covered by the Development Maintenance Fund provided for in the Project Agreement signed between the Government and the Cyberport Developer. The Fund, which has been set up and is being managed by the HKCMCL, also provides funding for upkeep and replacing the shared facilities in the Cyberport Portion. The Government is confident that the Cyberport will steadily increase its occupancy rates in the coming years, further enhance the efficiency of its operations and contain the operating expenses. We envisage that the Companies would be able to achieve positive cashflow operation from 2009/10.

Anticipated Return on Government's Investment

20. The Government contributed the land and provided the basic infrastructure, such as roads and sewage treatment, for the Cyberport development. Its capital contribution to the Project is the Residential Portion Land Value at the time when the development right was granted to the Cyberport Developer (\$7.93 billion including the estimated cost of \$1.10 billion for the basic infrastructure). The capital contribution of the Developer is the funding it provided to finance the construction costs and related expenses of the project (\$4.36 billion).

21. The Cyberport Portion was declared practically completed on 28 June 2004 (though Cyberport 4 was opened in December 2004). After deducting the relevant expenses due and payable and setting up reserve funds (e.g. the Development Maintenance Fund) as per the Project Agreement, the surplus proceeds from the sale of the residential units

should be shared according to the respective capital contributions of the Government (64.5%) and the Developer (35.5%). The first distribution of surplus proceeds was made on 9 August 2004, with the Government receiving about \$1.67 billion out of a total of \$2.59 billion available for distribution on the date.

22. Further distributions of surplus proceeds will be made in 2005 up to 2010. Based on the latest forecast by the Developer, the total amount of surplus proceeds available for distribution (including the \$2.59 billion distributed on 9 August 2004) is estimated to be around \$17.6 billion, from which the Government will share a total of about \$11.4 billion (including the \$1.67 billion received on 9 August 2004). It should be noted that the actual amount of surplus proceeds to be shared by both parties will vary in accordance with the actual sales prices of the remaining residential units.

23. The most important return on the Government's investment in the Cyberport project is its 100% ownership of the Cyberport Portion, which is a critical piece of infrastructure to promote and support the development of the IT and related industries in Hong Kong. By catalyzing the growth of the industries, Cyberport will contribute significantly to the overall economic development of Hong Kong. The commercial valuation of the Cyberport Portion (as at September 2004) is about \$2.89 billion³.

24. To quantify the Government's financial return from the Cyberport Project, an internal rate of return⁴ (IRR) has been calculated. 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 (a) the valuation of the Cyberport Portion (\$2.89 billion) and (b) the anticipated total share of surplus sales proceeds to be received by the Government (\$11.4 billion), the yearly IRR to the Government is forecast to be around **9.43% to**

³ The valuation was conducted by an international property surveyor engaged by HKCMCL.

⁴ 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.

11.2%. The range is due to the different assumptions used in forecasting the average sales prices of the subsequent phases of residential development⁵.

25. We believe that the IRR for the Cyberport project is, generally, a respectable return for public sector investments. The up-turn of the property market in the past year has certainly helped improve the IRR for the Government – for comparison purpose, the IRR for the Government would be 4.84% and 3.37% if the entire residential development was sold, respectively, at the prevailing market prices in early 1999 (when the Cyberport Project was announced) and in early 2003 (when pre-sale of Phase I of the residential development was launched)⁶. Nonetheless, except for the uncertainty associated with movements in the property market which will affect the size of Government's share of surplus sales proceeds, all the downside risks associated with the Cyberport project (construction, cost overrun, financial and default risks) had been passed to and borne by the Developer through the Project Agreement. Whether and to what extent the Developer can break-even or make a profit depends on the market prices of the remaining phases of the residential development.

Conclusion

26. The Government together with the Cyberport management will continue to make its best endeavour to achieve the public missions set for the Cyberport in the years to come. We are confident that the Cyberport is capable of making significant contributions to the development of the IT and digital entertainment industries in Hong Kong.

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⁵ The lower end of the forecast is based on more conservative assumptions of the average sale prices (\$6,102 per sq ft), while the higher-end forecast is based on more optimistic assumptions (\$6,622 per sq ft).

⁶ Taking \$5,000 and \$4,700 per sq ft as the average sales prices for early 1999 and early 2003 respectively.

**List of Tenants and Committed Tenants
(as at 15 December 2004)**

Tenants' Name	Brief Description
1. GXS International Inc.	A multinational company providing network and data centre infrastructure for B2B e-Commerce services globally.
2. Microsoft (Hong Kong) Ltd	A multinational company and a leading software provider.
3. ESRI (Hong Kong) China	A U.S. based company providing Geographical Information System (GIS) products.
4. SmartTrust Limited	A Finland based company providing mobile communication and mobile-based services and applications.
5. DBTronix Limited	A local company providing security solutions for protection from breaches in Internet.
6. Incubation Centre at Cyberport Limited	A local company providing incubator services for IT industry.
7. PCCW	A H.K. listed company providing local and international telecom services, Internet and interactive multimedia services.
8. Outblaze Limited	A local company. Development and outsourcing provider of web-based communication and infrastructure software solutions.
9. SafeNet Asia Limited {formerly Rainbow Technologies (Asia Pacific) Co. Ltd}	A U.S. company new to Hong Kong. It provides information security solutions for Internet, eCommerce and content protection.
10. The University of Hong Kong	For setting up of "Cyberport Institute" to provide training facilities on site.
11. Compuware (Asia Pacific) Limited	A U.S. based company providing software tools and professional services for business.
12. Hong Kong CSL Limited	A local company providing telecom and mobile services.

Tenants' Name	Brief Description
13. Sybase Hong Kong Limited	A multinational company providing technical services on business development and application solution development.
14. HNH International Ltd	A Hong Kong based international company engaging in the production and marketing of classical and world music (including brand names like Naxos and Marco Polo), audio-visual programmes, online music and language education, webcasting and book publishing.
15. Noah Company Ltd	A newly set up local company engaging in multimedia content creation.
16. Arctic Cooling (HK) Ltd.	A Switzerland based company and new to Hong Kong. It provides thermal solutions to reduce the noise and heat of computer systems.
17. Suntek Computer Systems Ltd.	A Hong Kong based company in the development of software applications for e-commerce.
18. Centro Digital Pictures Ltd.	One of the leading local companies dedicated to digital animation creations for applying onto film, video and other multi-media productions.
19. New Top City Ltd. {trading as the Institute of High Performance Computing }	A newly set up local company specializes in software development for enhancing performance of computers in processing complicated simulations and computing.
20. Office of the Government Chief Information Officer {formerly Information Technology Services Department, HKSAR }	A Government entity responsible for formulating IT policies and execution of programmes. The operations in the Cyberport are responsible for monitoring technology trend, appraising and monitoring new technologies and solutions on IT, providing management and facilities support for IT training, and managing IT services and projects.
21. Everbest Technologies (SMS) Ltd.	A local SME engages in the research and development of software products in connection with SMS and MMS applications for mobile phones.
22. Shenzhen Strength	A Mainland based software company new to Hong Kong. Its software products apply to intelligent residential building system, remote utility meters reading, CATV broadband

Tenants' Name	Brief Description
	network.
23. Schneider Electric Business Solutions – SEBS HK Ltd.	A French based multinational corporation. The Hong Kong office serves as its IT hub and platform to enhance its global customer service as well as other value-added services.
24. EO Global Ltd.	A local SME focusing on the research and development of software products in connection with global relocation of personnel, executive search and other human resources management tools.
25. Mail Prove Ltd.	A new SME set up which provides innovative anti-spam systems for email users.
26. EmployeeConnect (Greater China) Ltd.	A local SME backed by an Australian company engages mainly in the development and marketing of its software product – EmployeeConnect, which performs a comprehensive range of web-based functions on corporate human resources and administration matters.
27. CoVi Technologies Inc.	A U.S. company new to Hong Kong. Its principal business is in design, development and manufacturing of IT-friendly digital and HDTV video surveillance hardware and software systems.
28. Brightex Technology Ltd.	A local SME specializing in the development and marketing of software products in connection with mobile devices such as PDAs, mobile phones and tablet PC.
29. Rockwell Automation Asia Pacific Ltd.	A wholly owned subsidiary of Rockwell Automation, a listed company in U.S. The company provides integrated automation solutions to enhance industrial productivity of its clients by means of advanced technologies.
30. Adel Group (Asia) ltd {formerly Hong Kong Ideal Group Limited}	A Mainland based company specializes in research and development, marketing and sales of biometrics access products for IT security applications.
31. eDesiCool Limited {trading as GeoClicks}	A local SME engaging in online B2C e-commerce activities. It currently manages 3 websites and affiliates with Amazon.com and

Tenants' Name	Brief Description
	Google.com.
32. Societe D Applications Technologiques Del Imagerie Micro-onde {Local registered name for Satimo (SA) Societe D'Applications Technologiques De L'Imagerie Micro-ondes}	A French company new to Hong Kong and focusing on design and manufacture of electromagnetic waves measurement systems applicable to wireless application device.
33. Evolution World Wide	A newly set up local company engages in research and development of anti-spam system.

(For information only)

Annex B

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

**CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2001**

	<u>Note</u>	<u>HK\$</u>
Turnover		-
Direct Outgoings		-
Gross Loss		<hr/> -
Other revenues	1	1,060
Administrative expenses	2	(1,730,408)
Loss for the year		<hr/> <u>(1,729,348)</u>
Accumulated losses brought forward		-
Accumulated losses carried forward		<hr/> <u>(1,729,348)</u>

(For information only)

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2001**

	<u>Note</u>	<u>HK\$</u>
<u>Current Assets</u>		
Amount due from Financial Secretary Incorporated		2
Cash and bank balances		2,340
		<u>2,342</u>
<u>Current Liabilities</u>		
Accounts payable & other accruals		482,496
Amount due to ultimate shareholder	3	1,249,192
		<u>1,731,688</u>
Net Current Liabilities		<u><u>(1,729,346)</u></u>
Financed by:		
Share capital	4	2
Accumulated losses		(1,729,348)
Shareholders' funds		<u><u>(1,729,346)</u></u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT

1. Other Revenue HK\$

Other incidental income	1,000
Bank interest	60
	<u>1,060</u>

2. Administrative expenses HK\$

Auditor's remuneration	36,000
Accounting, taxation & secretarial services fees	77,000
Legal & professional fees	1,435,195
Honorarium & travel expenses	163,151
Others	19,062
	<u>1,730,408</u>

3. Amount due to ultimate shareholder is unsecured, interest free and has no fixed terms of repayment.

4. Share capital

	<u>HK\$</u>
Authorised	
1,000 ordinary shares of HK\$1 each	<u>1,000</u>
Issued and fully paid	
2 ordinary shares of HK\$1 each	<u>2</u>

(For information only)

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

**CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2002**

	<u>Note</u>	<u>HK\$</u>
Turnover		-
Direct Outgoings		-
Gross Loss		<hr/> -
Other revenues	1	1,091
Administrative expenses	2	(4,683,777)
Loss for the year		<hr/> (4,682,686) <hr/>
Accumulated losses brought forward		(1,729,348)
Accumulated losses carried forward		<hr/> <u>(6,412,034)</u> <hr/>

(For information only)

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2002

	<u>Note</u>	<u>HK\$</u>
<u>Current Assets</u>		
Amount due from Financial Secretary Incorporated		2
Cash and bank balances		2,075,371
		<u>2,075,373</u>
<u>Current Liabilities</u>		
Accounts payable & other accruals		1,665,699
Deposit received from tenants		2,072,240
Amount due to ultimate shareholder	3	4,749,466
		<u>8,487,405</u>
Net Current Liabilities		<u>(6,412,032)</u>
Financed by:		
Share capital	4	2
Accumulated losses		(6,412,034)
Shareholders' funds		<u>(6,412,032)</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT

1. Other Revenue	<u>HK\$</u>
Bank interest	1,091
	<u>1,091</u>

2. Administrative expenses	<u>HK\$</u>
Auditor's remuneration	36,000
Accounting, taxation & secretarial services fees	153,381
Advertising expenses	961,039
Legal & professional fees	2,682,062
Honorarium & travel expenses	477,128
Others	374,167
	<u>4,683,777</u>

3. Amount due to ultimate shareholder is unsecured, interest free and has no fixed terms of repayment

4. Share capital	<u>HK\$</u>
Authorised	
1,000 ordinary shares of HK\$1 each	<u>1,000</u>
Issued and fully paid	
2 ordinary shares of HK\$1 each	<u>2</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2003

	Note	HK\$
Turnover	1	25,548,477
Direct Outgoings	2	(47,971,951)
Gross Loss		<u>(22,423,474)</u>
Other revenues	1	2,735,885
Administrative expenses	3	(15,037,503)
Other operating expense	4	(2,344,900)
Loss for the year		<u>(37,069,992)</u>
Accumulated losses brought forward		(6,412,034)
Accumulated losses carried forward	5	<u>(43,482,026)</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2003

	<u>Note</u>	<u>HK\$</u>
<u>Non-current Assets</u>		
Fixed Assets	6	1,367,181,112
Loan receivable		1,242,725
Deferred rental receivable		4,170,876
		<u>1,372,594,713</u>
<u>Current Assets</u>		
Current portion of loans receivable		450,304
Account receivables and prepayments		3,736,575
Amount due from Financial Secretary Incorporated		2
Cash and bank balances		50,505,645
		<u>54,692,526</u>
<u>Current Liabilities</u>		
Accounts payable & other accruals		29,545,083
Amount due to ultimate shareholder	7	58,989,316
Rental and other deposits		11,395,312
		<u>99,929,711</u>
Net Current Liabilities		(45,237,185)
Total Assets		<u>1,327,357,528</u>
Financed by:		
Share capital	9	2
Capital reserve	8	1,370,839,552
Accumulated losses		(43,482,026)
Shareholders' funds		<u>1,327,357,528</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT

1. Turnover & Revenue	HK\$
Rental income	14,501,868
Management fee income	9,958,767
Car Park fee income	755,923
IT Facilities income	331,919
Total Turnover	<u>25,548,477</u>
Other incidental income	2,696,259
Bank interest income	30,554
Loan interest income	9,072
Other Revenue	<u>2,735,885</u>
Total Revenue	<u>28,284,362</u>
2. Direct outgoings	HK\$
Building management expenses	22,864,432
IT Facilities maintenance fee	16,729,550
Insurance	1,975,232
Depreciation	6,402,737
	<u>47,971,951</u>
3. Administrative expense	HK\$
Legal & consultancy fee	5,445,985
Staff cost	8,028,713
Travelling expenses	39,397
Transportation	108,000
Marketing & corporate communication expense	230,523
Other administrative expenses	1,074,790
Depreciation	110,095
	<u>15,037,503</u>
4. Other operating expense	HK\$
Hotel pre-opening expense	<u>2,344,900</u>
	<u>2,344,900</u>
5. Accumulated losses carried forward is after charge of depreciation:	HK\$
Accumulated losses before depreciation	36,969,194
Accumulated depreciation	6,512,832
Accumulated losses after depreciation	<u>43,482,026</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT (Cont'd)

6. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rate are as follows:-

Handover of Cyberport portion:-

- Buildings	Over the period of the lease
- Building services and support facilities	10%
- Information technology facilities	20%

Other fixed assets:

- DMC Project equipment	33.33%
- Leasehold improvement	10%
- Furniture and equipment	10% - 20%
- Motor vehicle	20%

	Buildings HK\$	Building services and facilities HK\$	IT Facilities HK\$	Leasehold improvement HK\$	Furniture & equipment HK\$	Motor Vehicles HK\$	Total HK\$
Cost							
At 31st March 2002	-	-	-	-	-	-	-
Additions							
- handed over from Developer	920,859,840	326,521,997	123,457,715	-	-	-	1,370,839,552
- purchases	-	-	-	98,126	2,348,252	408,014	2,854,392
At 31st March 2003	<u>920,859,840</u>	<u>326,521,997</u>	<u>123,457,715</u>	<u>98,126</u>	<u>2,348,252</u>	<u>408,014</u>	<u>1,373,693,944</u>
Accumulated Depreciation							
At 31st March 2002	-	-	-	-	-	-	-
Charges for the year	1,624,091	2,721,017	2,057,629	8,177	61,117	40,801	6,512,832
At 31st March 2003	<u>1,624,091</u>	<u>2,721,017</u>	<u>2,057,629</u>	<u>8,177</u>	<u>61,117</u>	<u>40,801</u>	<u>6,512,832</u>
Net book value							
At 31st March 2003	<u>919,235,749</u>	<u>323,800,980</u>	<u>121,400,086</u>	<u>89,949</u>	<u>2,287,135</u>	<u>367,213</u>	<u>1,367,181,112</u>

7. Amount due to ultimate shareholder is unsecured, interest free and has no fixed terms of repayment

8. In accordance with the terms of the Project Agreement and the Sub-lease Agreement, Cyberport 2 was handed over from the Developer at nil consideration, resulting to a capital reserve which is carried forward

At 1st April 2002	HK\$
Handover of the Cyberport project	0
At 31st March 2003	<u>1,370,839,552</u>
	<u>1,370,839,552</u>

9. Share capital

Authorised	HK\$
1,000 ordinary shares of HK\$1 each	<u>1,000</u>
Issued and fully paid	
2 ordinary shares of HK\$1 each	<u>2</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2004

	Note	HK\$
Turnover	1	58,330,286
Direct Outgoings	2	(187,701,436)
Gross Loss		<u>(129,371,150)</u>
Other revenues	1	7,973,690
Administrative expenses	3	(31,943,655)
Other operating expenses	4	(5,679,909)
Loss for the year		<u>(159,021,024)</u>
Accumulated losses brought forward		(43,482,026)
Accumulated losses carried forward	5	<u>(202,503,050)</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2004

	<u>Note</u>	<u>HK\$</u>
<u>Non-current Assets</u>		
Fixed Assets	6	2,259,266,928
Loan receivable		1,743,479
Deferred rental receivable		10,597,575
Designed bank balance	7	500,000,000
		<u>2,771,607,982</u>
<u>Current Assets</u>		
Inventories	8	1,525,848
Current portion of loans receivable		712,755
Account receivables and prepayments		3,519,585
Amount due from Financial Secretary Incorporated		2
Cash and bank balances		49,756,272
		<u>55,514,462</u>
<u>Current Liabilities</u>		
Accounts payable & other accruals		41,598,479
Amount due to ultimate shareholder	9	104,983,544
Rental and other deposits		16,037,247
		<u>162,619,270</u>
Net Current Liabilities		(107,104,808)
Total Assets		<u>2,664,503,174</u>
Financed by:		
Share capital	12	2
Capital reserve	10	2,357,537,940
Accumulated losses		(202,503,050)
Shareholders' funds		<u>2,155,034,892</u>
Non-current Liabilities		
Development Maintenance Fund	7	500,000,000
Deferred income	11	9,468,282
		<u>2,664,503,174</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT

1. Turnover & Revenue	HK\$
Rental income	33,007,796
Management fee income	22,988,026
Car Park fee income	1,649,508
IT Facilities income	684,956
Total Turnover	<u>58,330,286</u>
Other incidental income	7,025,048
Amortization of deferred income	778,522
Bank interest income	103,331
Loan interest income	54,397
Rental income from DMC	12,392
Other Revenue	<u>7,973,690</u>
Total Revenue	<u><u>66,303,976</u></u>
2. Direct outgoings	HK\$
Building management expenses	55,547,267
IT Facilities maintenance fee	20,049,290
Insurance	3,520,027
Government rent & rates	4,036,354
Depreciation	104,548,498
	<u>187,701,436</u>
3. Administrative expense	HK\$
Legal & consultancy fee	2,691,036
Staff cost	25,306,124
Travelling expenses	75,699
Transportation	1,076,179
Marketing & corporate communication expense	412,584
iResource Centre expense	1,945
Other administrative expenses	1,763,003
Depreciation	617,085
	<u>31,943,655</u>
4. Other operating expense	HK\$
Hotel pre-opening expense	5,545,477
DMC pre-opening expense	134,432
	<u>5,679,909</u>
5. Accumulated losses carried forward is after charge of depreciation	HK\$
Accumulated losses before depreciation	90,824,635
Accumulated depreciation	111,678,415
Accumulated losses after depreciation	<u>202,503,050</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT
(Cont'd)

6. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rate are as follows:

Handover of Cyberport portion:-

- Buildings	Over the period of the lease
- Building services and support facilities	10%
- Information technology facilities	20%

Other fixed assets:

- DMC Project equipment	33.33%
- Leasehold improvement	10%
- Furniture and equipment	10% - 20%
- Motor vehicle	20%

	Buildings HK\$	Building services and facilities HK\$	IT Facilities HK\$	DMC project equipment HK\$	Leasehold improvement HK\$	Furniture & equipment HK\$	Motor Vehicles HK\$	Total HK\$
Cost								
At 31st March 2003	920,859,840	326,521,997	123,457,715	.	98,126	2,348,252	408,014	1,373,693,944
Additions								
- handed over from Developer	597,430,789	348,366,177	40,901,422	986,698,388
- purchases	.	.	.	8,883,056	286,911	1,088,390	294,654	10,553,011
At 31st March 2004	<u>1,518,290,629</u>	<u>674,888,174</u>	<u>164,359,137</u>	<u>8,883,056</u>	<u>385,037</u>	<u>3,436,642</u>	<u>702,668</u>	<u>2,370,945,343</u>
Accumulated Depreciation								
At 31st March 2003	1,624,091	2,721,017	2,057,629	.	8,177	61,117	40,801	6,512,832
Charges for the year	24,966,016	50,818,360	28,527,557	236,565	22,459	459,003	135,623	105,165,583
At 31st March 2004	<u>26,590,107</u>	<u>53,539,377</u>	<u>30,585,186</u>	<u>236,565</u>	<u>30,636</u>	<u>520,120</u>	<u>176,424</u>	<u>111,678,415</u>
Net book value								
At 31st March 2003	<u>919,235,749</u>	<u>323,800,980</u>	<u>121,400,086</u>	<u>.</u>	<u>89,949</u>	<u>2,287,135</u>	<u>367,213</u>	<u>1,367,181,112</u>
At 31st March 2004	<u>1,491,700,522</u>	<u>621,348,797</u>	<u>133,773,951</u>	<u>8,646,491</u>	<u>354,401</u>	<u>2,916,522</u>	<u>526,244</u>	<u>2,259,266,928</u>

7. It represents a reserve fund allocated from the Project fund and maintained by the group for the purpose of financing the operation and maintenance of the Cyberport Portion as per the Project Agreement. This reserve fund is subject to final assessment and is separately deposited into a designated bank account as per the Project Agreement.

8. Inventories comprise hotel stocks and consumables and are stated at the lower of cost and net realisable value. Costs are calculated on weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

9. Amount due to ultimate shareholder is unsecured, interest free and has no fixed terms of repayment.

10. In accordance with the terms of the Project Agreement and the Sub-lease Agreement, Cyberport 2, Cyberport 1 and Cyberport 3 Core A were handed over from the Developer at nil consideration, resulting to a capital reserve which is carried forward.

HK\$

At 1st April 2003	1,370,839,552
Handover of the Cyberport project	986,698,388
At 31st March 2004	<u>2,357,537,940</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE ACCOUNT
(Cont'd)

11. Government grants and sponsorship received for the purpose of the DMC Project are recognised as deferred income and are included in non-current liabilities. Grants relating to income are deferred and recognised in the profit & loss account over the period necessary to match them with the costs they are intended to compensate. Grants and sponsorship relating to the purchase of fixed assets are credited to the profit & loss account on a straight-line basis over the expected lives of the related assets.

Deferred income	Government Grant HK\$	Sponsorship HK\$	Total HK\$
Addition At 31st March 2004	9,330,000	916,804	10,246,804
Amortization for the year	(763,241)	(15,281)	(778,522)
Balance At 31st March 2004	<u>8,566,759</u>	<u>901,523</u>	<u>9,468,282</u>

12. Share capital

	HK\$
Authorised 1,000 ordinary shares of HK\$1 each	<u>1,000</u>
Issued and fully paid 2 ordinary shares of HK\$1 each	<u>2</u>