

**For discussion  
on 12 March 2007**

## **Information Technology and Broadcasting Panel**

### **Report on the Cyberport Project (March 2007)**

#### **Purpose**

This paper provides an update on the progress of the Cyberport Project (the Project) including the financial performance of the Project as reported in the audited accounts for the financial year ended 31 March 2006.

#### **Background**

2. At the Information Technology and Broadcasting Panel meeting on 8 May 2006, Members were briefed on the progress of the Project. Since then, the audited accounts of the Cyberport Companies<sup>1</sup> for the financial year ended 31 March 2006 (the 2005/06 Accounts) (**Annex A**) were ready in December 2006. The financial performance of the Project as shown in the 2005/06 Accounts and progress made since the last Panel meeting are summarized in the following paragraphs. Background information on the Cyberport Project can be found in **Annex B**.

#### **Financial Performance**

3. The development of the Cyberport Portion of the Project was completed in June 2004. The 2005/06 Accounts are the second full-year report on the financial performance of the Project since the completion. For the year ended March 2006 (the 2005/06 financial year), revenue was \$188 million, compared with \$136 million the year before and \$65 million for the year ended March 2004 (2003/04).

---

<sup>1</sup> Three private and wholly-owned companies, namely, Hong Kong Cyberport Development Holdings Limited, Hong Kong Cyberport Management Company Limited and Hong Kong Cyberport (Ancillary Development) Limited (collectively referred to as the “Cyberport Companies” in this paper) have been set up under the Financial Secretary Incorporated (FSI) to oversee the implementation of the project.

4. The Cyberport Companies reported a profit of \$817 million in 2005/06 compared with a profit of \$1,134 million in 2004/05 and a loss of \$159 million in 2003/04. The profit in 2004/05 and 2005/06 has mainly been contributed by Project Income from ancillary residential development in the Project that is expected to continue until around 2009/10.

5. The operating loss before financial costs, tax and depreciation and excluding Project Income from the ancillary development was \$17 million<sup>2</sup> in 2005/06 compared with a loss of \$77 million in 2004/05 and a loss of \$54 million in 2003/04. This improvement is due to increases in both rental and management fee income. It is anticipated that the Companies will report an operating profit before Project Income in 2006/07.

6. Rental income, management fee income and building management expenses are the major sources of income and expenses for the Project, and have been increasing as shown below :

	2003/04	2004/05	2005/06
		(\$ million)	
Rental income	33	40	52
Management fee income	23	29	38
Building management expenses	56	76	89

7. Rental income in 2005/06 increased by 30% over 2004/05, and management fee income increased by 31%. These were the result of higher occupancy and the growth was higher than the increase in building management expenses in 2005/06, which exceeded the 2004/05 expenses by 17.1%. The tenancy arrangement for Cyberport is explained in paragraphs 8 to 15 below.

---

<sup>2</sup> \$17 million is the difference obtained by subtracting "Project income" from "Operating profit/(loss) before depreciation" in the Consolidated Profit and Loss Account in Annex A. The numbers are \$17,125,435 for 2005/06 and \$76,660,265 for 2004/05.

## **Tenancy Position**

### *Office*

8. As of end January 2007, there were sixty-six (66) corporate tenants occupying 73.5% of the lettable office space, compared with forty-seven (47) tenants and 54.3% respectively about a year ago. There were sixty (60) commercial tenants, five (5) not-for-profit or industry support organisations and one (1) government IT office. Occupancy is expected to increase to around 80% in 2007.

9. Forty-six percent (46%) of Cyberport office tenants were multinational companies and thirty-eight percent (38%) of Cyberport office tenants were new to Hong Kong. They created new business and employment opportunities for the local economy. Cyberport office tenants employed around 3,300 workers; this number has increased by 15% since their relocation to or establishment in Cyberport.

10. Cyberport needs to form the right mix of IT and related enterprises as tenants to create the desired clustering effect essential to the IT flagship. High quality Grade A offices as well as state-of-the-art infrastructure and support facilities provides an essential ingredient. However, Cyberport also faces the typical challenges for new developments of this kind, including a small residential and working population, the distance from the central business district and inadequate public transport.

11. In response to these challenges, Cyberport management offered rental concessions including rent-free periods, in line with commercial practice, to ensure that it stayed competitive in the specific tenant segment of the office market that was important to Cyberport's mission. The effective rental level was and continues to be adjusted in line with the prevailing market condition, individual lease duration, and the effect of any rent free period.

### *Arcade*

12. The Cyberport Arcade covers the majority of the lettable retail space in the Cyberport Portion. As of 26 January 2007, 84% of the lettable retail space in the Arcade has been let or occupied, including 33% of the

lettable retail space used by or sub-let through the Anchor Tenant (A-T). There were twenty-seven (27) retail outlets in the Arcade including thirteen (13) retail outlets in the A-T area. Usage of the leased facilities by the A-T, which has been broadly defined in the tenancy offer in line with the Arcade theme, is subject to the approval of the Hong Kong Cyberport Management Company Ltd. (HKCMCL) representing the landlord. The A-T is allowed to sub-let no more than 25% of the leased space.

13. The A-T was admitted in mid 2004 as a result of an extensive search in Japan, USA and Europe undertaken by a professional retail-leasing agent (the Agent). No less than thirteen (13) potential A-Ts have been approached, and four (4) substantive proposals were considered. One viable proposal was short-listed by the Agent for negotiation before agreement for the A-T lease was concluded.

14. Cyberport management controls directly the letting of all other premises within the Arcade that are not covered by the A-T lease. Letting is done in line with the theme of the Arcade and Cyberport's mission, prudent commercial principles and normal market practice. Letting decisions are made by the HKCMCL Executive Committee or by the CEO under delegated authority given by the Committee. Generally speaking, rent in the Arcade including rent under the A-T lease is linked to the gross revenue of the retail outlets.

15. Favourable lease terms including rental incentives have been given to the A-T and other tenants to attract retail merchants to the new shopping centre during its nascent stage of development when consumer traffic is low, particularly in leases that were negotiated during the market downturn in the wake of SARS. The Cyberport Arcade operates in its distinct geographic and client market segment and does not compete directly with other shopping centre operators. Incentives, together with the Arcade theme to guide tenant recruitment, and the Anchor-Tenant (A-T) approach to secure a core set of retail outlets form the three-prong strategy that guides leasing of retail space in the Arcade. Further details on the Arcade tenancy arrangements are given in **Annex C**.

### **Public Missions Performance**

16. The public missions of the Cyberport are listed in **Annex D**.

### ***Leading digital city branding***

17. Cyberport has established its image as Hong Kong's IT flagship. This is evident in the number of incoming visits by high-ranking delegations from Mainland China and overseas countries. On average, Cyberport receives more than ten (10) such delegations every month. There were a total of 113 delegations from seventeen (17) countries and Mainland China between April 2006 and January 2007. The most senior officials that have visited Cyberport included the Chairman of the Chinese People's Political Consultative Conference who visited in June 2006, the Minister of Economic Development of British Columbia of Canada and the Chief Minister of the State of Uttaranchal of India. During the ITU Telecom World 2006 event in December 2006, forty-one (41) ministerial officers from various overseas countries visited Cyberport.

18. Hong Kong's leadership in 3G technology application was showcased at the ITU event to thousands of overseas visitors. That included 3G applications that were developed in Hong Kong using the TD-SCDMA (China's home-grown 3G standard) facilities at the HKWDC in Cyberport.

19. Cyberport or the Cyberport management were featured ten (10) times in overseas media between April 2006 and January 2007.

20. Eighteen (18) cooperation agreements between Cyberport and local, Mainland or overseas organizations are in force. Such relationship enhances mutual cooperation and exchange but more importantly the international image of Hong Kong and Cyberport as its IT flagship.

### ***Global promotional efforts***

21. The Cyberport management worked closely with InvestHK and the Government's Economic and Trade Offices to promote Cyberport and recruit overseas tenants. The Cyberport management visited companies and gave presentations in twenty-two (22) overseas countries/cities from April 2006 to January 2007 for such purposes.

### ***Strategic Cluster of IT & Related Companies***

22. The existing sixty-six (66) tenants have been selected from among 181 applicants to-date. The tenant mix is balanced and consists of thirty (30) multinational companies, thirty (30) local IT enterprises, one (1) industry support body, four (4) academic & research establishments and a government IT office.

23. The tenant selection process and admission criteria ensure that tenants' trades are compatible with the public missions of Cyberport.

### ***Nurturing & Support for SMEs***

24. As of January 2007, twenty-nine (29) out of sixty-six (66) or 44% of the office tenants were SMEs. There were another thirty (30) incubatee companies in the Cyberport Digital Entertainment Incubation-cum-Training Centre (IncuTrain Centre). The benefit of Cyberport tenancy to the SMEs, besides the state-of-the-art infrastructure and physical proximity to successful multinationals, include the development and support facilities and services that are easily accessible to them in Cyberport.

25. These facilities include the Digital Media Centre (DMC), Digital Entertainment Industry Support Centre, Hong Kong Wireless Development Centre (HKWDC), iResource Centre, IncuTrain Centre as well as the IT Solution Centre in the Office of the Government Chief Information Officer. Accomplishments by tenants can be attributed to the support that they have been getting through the Cyberport community. Some are mentioned below.

26. In 2006/07, the incubatees have won a total of twelve (12) industry awards. An incubatee was a finalist in the culture category of the Stockholm Challenge Awards 2006. Another incubatee was given the Certificate of Merit for the Digital Entertainment – mobile game category of the Hong Kong ICT Awards 2006. The products and services of fourteen (14) incubatees' were showcased at the Second (China) International Cultural Industry Fair 2006. Furthermore, two (2) start-ups in the Xbox Games Incubation Programme secured a publishing arrangement for their computer game titles with an international games publisher.

27. The industry support centres are an important resource for local IT SMEs at large. For example, the HKWDC has more than 120 corporate members; most of them are SMEs that account for over 50% of the wireless

and mobile application developers in Hong Kong. This number has increased from 110 in 2005.

### ***State-of-the-art Infrastructure***

28. In 2006, apart from the IT infrastructure that has been put in place to support the operation of its tenants and users, including campus-wide open wireless network (Wi-Fi) coverage, Cyberport continued to operate the various development and support centres mentioned in paragraph 25 above for the benefit of the local IT sector focusing on wireless and mobile as well as digital entertainment technologies.

29. The iResource Centre hosts Hong Kong's first public digital rights/asset management (DRM) portal, iResource.hk, that enables digital content owners, mostly SMEs, to make their creative work available for secure access on the Internet.

30. In November 2006, the HKWDC became the first location outside Mainland China that has installed the technology infrastructure to facilitate development and testing of application solutions for TD-SCDMA, China's home-grown 3G standard. Other similar technological capabilities and cooperation have also been put in place between the local, Mainland and Asia Pacific markets.

### ***Human Capital***

31. The mix of commercial enterprises, academic institutions and industry support bodies among Cyberport tenants provides the natural cross-breeding ground for the development of human capital in the IT sector. Furthermore, various initiatives undertaken by the development and support centres at Cyberport create and enhance such opportunities.

32. In 2006, the DMC provided venue and digital facilities to local academic institutions for the benefits of students and organized technology exchange and transfer programmes for local digital media practitioners.

33. Cyberport continues to be a major venue for IT (including digital entertainment) related conferences and events in Hong Kong and Asia. From September 2002 to January 2007, around 680 events have been held in

Cyberport with more than 172,000 participants. These included 408 regional and local conferences and 118 product-launch events. These events not only gave the IT (including digital entertainment) professionals opportunities to exchange views with local and overseas experts/counterparts, but also re-affirmed Cyberport's position as an IT (including digital entertainment) hub in the region.

## **Conclusion**

34. Cyberport has firmly established itself as Hong Kong's IT flagship and has created a distinct global image. It will continue to strengthen and develop its capabilities through continuous improvement to its financial position, technological capabilities and sustained efforts in facilitating the development of the local IT industry and delivering its public missions. Ultimately we expect Cyberport to contribute to the overall mission of making Hong Kong an important gateway for the development, application and marketing of IT (including digital entertainment) products and services in the Mainland and overseas markets.

**Office of the Government Chief Information Officer  
Commerce, Industry & Technology Bureau  
March 2007**

**Annex A****HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST MARCH 2006**

	Note	2004 HK\$	2005 HK\$	2006 HK\$
Turnover	1	65,367,726	135,843,514	187,774,309
Project income	1	-	1,674,713,591	1,323,491,171
Other revenues	1	936,250	12,126,034	39,244,398
		<hr/>	<hr/>	<hr/>
Total revenues		66,303,976	1,822,683,139	1,550,509,878
		<hr/>	<hr/>	<hr/>
Building management expenses		(55,547,267)	(76,340,110)	(89,097,260)
Staff costs		(25,306,124)	(53,702,809)	(62,246,674)
Information technology facilities maintenance fee		(20,049,290)	(25,942,884)	(24,476,861)
Government rent and rates		(4,036,354)	(17,350,524)	(11,489,066)
Other operating expenses	2	(15,220,382)	(51,293,486)	(56,834,281)
		<hr/>	<hr/>	<hr/>
Operating expenses before depreciation		(120,159,417)	(224,629,813)	(244,144,142)
		<hr/>	<hr/>	<hr/>
Operating profit/(loss) before depreciation		(53,855,441)	1,598,053,326	1,306,365,736
Depreciation	4	(105,165,583)	(171,679,660)	(257,719,823)
Finance costs		-	-	(36,689)
		<hr/>	<hr/>	<hr/>
Profit/(loss) before income tax		(159,021,024)	1,426,373,666	1,048,609,224
Income tax expenses	3	-	(292,585,413)	(231,122,822)

Profit/(loss) for the year	<u>(159,021,024)</u>	<u>1,133,788,253</u>	<u>817,486,402</u>
----------------------------	----------------------	----------------------	--------------------

## HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET  
AS AT 31ST MARCH 2006

	Note	2004 HK\$	2005 HK\$	2006 HK\$
<b><u>Non-current assets</u></b>				
Property, plant & equipment	4	2,259,266,928	4,976,155,549	4,738,992,983
Loans receivable		1,743,479	1,611,019	922,490
Deferred rental receivable		10,597,575	11,926,423	13,308,072
Held-to-maturity investments	5	-	357,407,235	379,627,008
		<u>2,271,607,982</u>	<u>5,347,100,226</u>	<u>5,132,850,553</u>
<b><u>Current assets</u></b>				
Inventories, at cost	6	1,525,848	3,423,004	2,704,246
Accounts receivable and prepayments		3,519,585	14,970,283	14,661,371
Current portion of loans receivable		712,755	962,756	855,189
Amount due from Financial Secretary Incorporated		2	2	2
Tax recoverable		-	489,463	1,241,040
Designated bank balance	5	500,000,000	32,018,634	6,487,009
Held-to-maturity investments	5	-	116,476,550	133,584,154
Cash and bank balances		49,756,272	117,046,382	170,220,430
		<u>555,514,462</u>	<u>285,387,074</u>	<u>329,753,441</u>
<b><u>Current liabilities</u></b>				
Accounts payable and other accruals		41,598,479	37,325,418	40,605,517
Current portion of finance lease liabilities		-	-	393,172
Rental and other deposits		16,037,247	17,299,652	26,085,347
Amount due to ultimate shareholder		104,983,544	-	-
		<u>162,619,270</u>	<u>54,625,070</u>	<u>67,084,036</u>
<b>Net current assets</b>		<u>392,895,192</u>	<u>230,762,004</u>	<u>262,669,405</u>
<b>Total assets less current liabilities</b>		<u>2,664,503,174</u>	<u>5,577,862,230</u>	<u>5,395,519,958</u>
<b><u>Equity</u></b>				
Share capital	7	2	2	2
Capital reserve	8	2,357,537,940	5,243,614,513	5,250,315,433
Accumulated losses	9	(202,503,050)	(179,518,772)	(369,632,370)
<b>Total equity</b>		<u>2,155,034,892</u>	<u>5,064,095,743</u>	<u>4,880,683,065</u>
<b><u>Non-current liabilities</u></b>				
Development maintenance fund	5	500,000,000	500,000,000	500,000,000
Deferred income	10	9,468,282	13,766,487	14,380,480
Finance lease liabilities		-	-	456,413
		<u>509,468,282</u>	<u>513,766,487</u>	<u>514,836,893</u>
		<u>2,664,503,174</u>	<u>5,577,862,230</u>	<u>5,395,519,958</u>

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

1. Revenues and turnover

	2004	2005	2006
	HK\$	HK\$	HK\$
<u>Turnover</u>			
Rental income	33,007,796	40,252,375	51,619,036
Management fee income	22,988,026	28,712,461	37,574,855
Income from hotel operation	-	51,601,223	79,792,117
Car park fee income	1,649,508	2,296,732	4,000,995
Information technology facilities income	684,956	1,506,984	1,398,759
Fees for usage of DMC and IRC equipment and services	12,392	1,260,608	2,271,057
Broadband service and installation fees	-	-	898,974
Other incidental income	7,025,048	10,213,131	10,218,516
	<hr/>	<hr/>	<hr/>
	65,367,726	135,843,514	187,774,309
	<hr/>	<hr/>	<hr/>
Project income	-	1,674,713,591	1,323,491,171
	<hr/>	<hr/>	<hr/>
<u>Other revenues</u>			
Amortisation of deferred income	778,522	4,892,795	11,419,867
Interest income from held-to-maturity investments, net of amortisation of premium (2005: HK\$5,980,418 ; 2006: HK\$6,730,762)	-	6,804,377	18,197,325
Interest income on bank deposits	5,203	23,753	9,220,399
Interest income on designated bank balance	98,128	318,746	330,216
Interest income on loans receivable	54,397	86,363	76,591
	<hr/>	<hr/>	<hr/>
	936,250	12,126,034	39,244,398
	<hr/>	<hr/>	<hr/>
Total revenues	66,303,976	1,822,683,139	1,550,509,878
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

2. Other operating expenses

	2004	2005	2006
	HK\$	HK\$	HK\$
Insurance			
- Hotel	-	1,015,414	739,782
- Others	3,520,027	3,646,924	3,366,846
	<u>3,520,027</u>	<u>4,662,338</u>	<u>4,106,628</u>
Professional fees	3,246,978	3,987,246	3,686,390
Marketing & corporate communication expenses	412,584	629,540	72,024
Travelling expenses	75,699	411,786	298,249
Transportation	1,076,179	1,278,608	810,000
Broadband service and installation expenses	-	-	511,496
Other hotel operation expenses	-	29,673,009	36,827,324
Other DMC, IRC & IncuTrain operating expenses	-	2,584,808	7,958,031
Hotel pre-opening expenses	5,545,477	6,383,867	-
DMC pre-opening expenses	134,432	-	-
Other miscellaneous expenses	1,209,006	1,682,284	2,564,139
	<u>15,220,382</u>	<u>51,293,486</u>	<u>56,834,281</u>

3. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the year.

4. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and

impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates in use are as follows:

Buildings	Over the period of the lease
Building services and support facilities	10%
Information technology facilities	20%
DMC, IRC and IncuTrain equipment	20% - 33 1/3%
Leasehold improvements	10%
Furniture and equipment	10% - 20%
Motor vehicles	20%

## HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 4. Property, plant and equipment (continued)

	Buildings	Building services and support facilities	Information technology facilities	DMC, IRC and IncuTrain equipment	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost</b>								
At 1 April 2003	920,859,840	326,521,997	123,457,715	-	98,126	2,348,252	408,014	1,373,693,944
Handover from								
Developer	597,430,789	348,366,177	40,901,422	-	-	-	-	986,698,388
Additions	-	-	-	8,883,056	286,911	1,088,390	294,654	10,553,011
At 31 March 2004	1,518,290,629	674,888,174	164,359,137	8,883,056	385,037	3,436,642	702,668	2,370,945,343
Handover from								
Developer	2,313,771,059	478,264,944	50,069,478	43,971,092	-	-	-	2,886,076,573
Additions	-	-	-	-	464,975	2,537,204	-	3,002,179
Disposals	-	-	-	-	(21,000)	(573,832)	-	(594,832)
At 31 March 2005	3,832,061,688	1,153,153,118	214,428,615	52,854,148	829,012	5,400,014	702,668	5,259,429,263
Handover from								
Developer	-	-	6,700,920	-	-	-	-	6,700,920
Additions	-	-	-	3,734,871	2,552,186	7,569,280	-	13,856,337
Reclassification	-	-	-	-	(85,688)	85,688	-	-
At 31 March 2006	3,832,061,688	1,153,153,118	221,129,535	56,589,019	3,295,510	13,054,982	702,668	5,279,986,520
<b>Accumulated depreciation</b>								
At 1 April 2003	1,624,091	2,721,017	2,057,629	-	8,177	61,117	40,801	6,512,832
Charge for the year	24,966,016	50,818,360	28,527,557	236,565	22,459	459,003	135,623	105,165,583
At 31 March 2004	26,590,107	53,539,377	30,585,186	236,565	30,636	520,120	176,424	111,678,415
Charge for the year	54,501,036	74,487,373	34,590,545	7,235,887	53,081	671,204	140,534	171,679,660

Disposals	-	-	-	-	(1,615)	(82,746)	-	(84,361)
At 31 March 2005	81,091,143	128,026,750	65,175,731	7,472,452	82,102	1,108,578	316,958	283,273,714
Charge for the year	83,098,299	115,315,312	43,844,430	12,612,446	493,931	2,214,871	140,534	257,719,823
Reclassification	-	-	-	-	(3,482)	3,482	-	-
At 31 March 2006	164,189,442	243,342,062	109,020,161	20,084,898	572,551	3,326,931	457,492	540,993,537
<b>Net book value</b>								
At 31 March 2004	1,491,700,522	621,348,797	133,773,951	8,646,491	354,401	2,916,522	526,244	2,259,266,928
At 31 March 2005	3,750,970,545	1,025,126,368	149,252,884	45,381,696	746,910	4,291,436	385,710	4,976,155,549
At 31 March 2006	3,667,872,246	909,811,056	112,109,374	36,504,121	2,722,959	9,728,051	245,176	4,738,992,983

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

5. 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 designated bank accounts. Certain portion of the fund is placed into various investments.
6. 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 the price at which inventories can be sold or realised in the normal course of business after allowing for the costs of realisation.
7. Share capital

	2004	2005	2006
	HK\$	HK\$	HK\$
Authorised:			
1,000 ordinary shares of HK\$1 each	1,000	1,000	1,000
	<u>          </u>	<u>          </u>	<u>          </u>
Issued and fully paid:			
2 ordinary shares of HK\$1 each	2	2	2
	<u>          </u>	<u>          </u>	<u>          </u>

8. In accordance with the terms of the Project Agreement and the Sub-lease Agreement, Cyberport 1, Cyberport 2, Cyberport 3, Cyberport 4, the Arcade and the Hotel were handed over from the Developer at nil consideration, resulting in a capital reserve which is carried forward.

	2004	2005	2006
	HK\$	HK\$	HK\$
At the beginning of the year	1,370,839,552	2,357,537,940	5,243,614,513
Handover of the Cyberport project	986,698,388	2,886,076,573	-

Handover of plant and equipment	-	-	6,700,920
	<u>                    </u>	<u>                    </u>	<u>                    </u>
At the end of the year	2,357,537,940	5,243,614,513	5,250,315,433
	<u>                    </u>	<u>                    </u>	<u>                    </u>

## 9. Accumulated losses carried forward

	2004	2005	2006
	HK\$	HK\$	HK\$
Accumulated profits/(losses) before depreciation	(90,824,635)	1,214,558,917	1,178,961,167
Accumulated depreciation	(111,678,415)	(283,273,714)	(540,993,537)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Accumulated profits/(losses) after depreciation	(202,503,050)	931,285,203	637,967,630
Dividend	-	(1,110,803,975)	(1,007,600,000)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Accumulated losses carried forward	(202,503,050)	(179,518,772)	(369,632,370)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

## HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 10. Deferred income

Government grants and sponsorships are recognized when there is a reasonable assurance that the group will comply with the conditions attaching with it and that the grant will be received. Government grants and sponsorships relating to income are deferred and recognized in the profit and loss account over the period necessary to match them with the costs they are intended to compensate. Government grants and sponsorships relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

	Government Grant HK\$	Sponsorship HK\$	Total HK\$
Cost			
At 1 April 2003	-	-	-
Additions	9,330,000	916,804	10,246,804
	<u>9,330,000</u>	<u>916,804</u>	<u>10,246,804</u>
At 31 March 2004	9,330,000	916,804	10,246,804
Additions	9,191,000	-	9,191,000
	<u>9,191,000</u>	<u>-</u>	<u>9,191,000</u>
At 31 March 2005	18,521,000	916,804	19,437,804
Additions	12,033,860	-	12,033,860
	<u>12,033,860</u>	<u>-</u>	<u>12,033,860</u>
At 31 March 2006	<u>30,554,860</u>	<u>916,804</u>	<u>31,471,664</u>
Accumulated amortisation			
At 1 April 2003	-	-	-
Credited to profit and loss account	(763,241)	(15,281)	(778,522)
	<u>(763,241)</u>	<u>(15,281)</u>	<u>(778,522)</u>
At 31 March 2004	(763,241)	(15,281)	(778,522)
Credited to profit and loss account	(4,709,434)	(183,361)	(4,892,795)
	<u>(4,709,434)</u>	<u>(183,361)</u>	<u>(4,892,795)</u>
At 31 March 2005	(5,472,675)	(198,642)	(5,671,317)
Credited to profit and loss account	(11,236,506)	(183,361)	(11,419,867)
	<u>(11,236,506)</u>	<u>(183,361)</u>	<u>(11,419,867)</u>
At 31 March 2006	<u>(16,709,181)</u>	<u>(382,003)</u>	<u>(17,091,184)</u>
Carrying amount			
At 31 March 2004	<u>8,566,759</u>	<u>901,523</u>	<u>9,468,282</u>
At 31 March 2005	<u>13,048,325</u>	<u>718,162</u>	<u>13,766,487</u>
At 31 March 2006	<u>13,845,679</u>	<u>534,801</u>	<u>14,380,480</u>

## **Annex B**

### **Background of Cyberport**

The Cyberport Project (the Project) is a HK\$15.8 billion project to develop Hong Kong's Information Technology (IT) flagship on a 24-hectare site at Telegraph Bay in the Southern District on the Hong Kong Island.

2. The prime objective of the Project is to support and promote innovation and technology development in Hong Kong through the creation of a strategic cluster of IT and related companies as well as a critical mass of professional talents in the territory. The Cyberport Project comprises a Cyberport Portion and a Residential Portion. The Cyberport Portion has been completed with four office buildings, a hotel and an arcade. The Residential Portion, Bel-Air, is being completed in phases from September 2004 to mid 2008. Three private companies wholly-owned by the Government, namely, Hong Kong Cyberport Development Holdings Limited, Hong Kong Cyberport Management Company Limited and Hong Kong Cyberport (Ancillary Development) Limited, collectively referred to as the **Cyberport Companies**, have been set up under the Financial Secretary Incorporated (FSI) to oversee the implementation of the project.

### **Infrastructure and Industry Support**

3. The Cyberport spearheads the development of the wireless and mobile as well as digital entertainment sectors through the provision of important infrastructure and technical support facilities that are important resources for local SMEs in the IT sector. The facilities include :

- The Digital Media Centre (DMC) that provides hardware, software and technical support to the digital entertainment sector;
- iResource Centre (iRC) that provides a wide range of IT and multimedia resources to over 6,700 registered members with an average of 2,300 visits per month in 2006;
- The Digital Entertainment Industry Support Centre that provides one-stop support services to help local SMEs in the digital entertainment sector;

- The Cyberport Digital Entertainment Incubation cum Training Centre that provides training and other incubation support to promising local digital entertainment start-ups; and
- The Hong Kong Wireless Development Centre that provides end-to-end infrastructural support for wireless and mobile application development in Hong Kong.

4. Cyberport provides state-of-the-art technology infrastructure including campus-wide broadband network and open wireless network (Wi-Fi) coverage to tenants and users.

5. iRC hosts Hong Kong's first public digital rights/asset management (DRM) portal, iResource.hk, that enables digital content owners, mostly SMEs, to make their creative work available for secure access on the Internet. In September 2006, the iRC founded the Hong Kong Digital Content Alliance (HKDCA) with nine major trade bodies in the digital content sector with the mission to promote the use of DRM technology in Hong Kong. In November 2006, the iRC organized the Digital Copyright Day to promote legal download of digital content to industry in collaboration with the Hong Kong Productivity Council, the Education and Manpower Bureau and the Hong Kong Education City Limited. The event attracted over 160 participants from 100 companies.

6. In November 2006, the HKWDC became the first location outside Mainland China that has installed the technology infrastructure to facilitate development and testing of application solutions for TD-SCDMA, China's home-grown 3G standard. Other similar technological capabilities and cooperation with counterpart in the local, Mainland and Asia Pacific markets have also been established.

### **Cyberport Tenancy**

7. All applications for tenancy at the Grade A offices at Cyberport are scrutinized by a panel of international and local experts on the Committee on Admission of Cyberport Office Tenants (CACOT)<sup>3</sup>; only those meeting the

---

<sup>3</sup> CACOT is responsible for advising the Cyberport Management on matters relating to the selection and admission of tenants for the offices provided in the Cyberport. Applicants which use or introduce new, leading-edge IT applications to Hong Kong will be given most favourable consideration.

criteria in support of Cyberport's public mission will be admitted as tenants. As of January 2007, the Cyberport has attracted sixty-six (66) local, Mainland and overseas companies as office tenants. The tenants have been selected from among 181 applications that have been considered by CACOT.

8. The Arcade tenancy arrangement at Cyberport is explained in a separate note in Annex C.

### **Government Investment in Cyberport**

9. The Government contributed land and basic infrastructure to the Project and the Cyberport Developer financed the construction costs and related Project expenses. The Government's capital contribution to the Project has been determined to be \$7.93 billion including the Residential Portion Land Value at the time when the development right was granted to the Developer and the cost of \$1.10 billion for the basic infrastructure. The capital contribution of the Developer was \$4.36 billion.

10. Surplus proceeds from the sale of the residential units, after deducting reserve funds<sup>4</sup> and relevant expenses are shared between the Government and the Developer pro-rated to the respective capital contributions (Government – 64.5% and Developer – 35.5%). The first distribution of surplus proceeds was made in 2004.

11. As of January 2007, the Government has received a total of about \$6.61 billion in surplus proceeds. Based on the latest forecast by the Developer, a cumulative total of up to \$14.9 billion in surplus distribution may be available to the Government for the duration of the entire Project, which will be completed around 2010; the actual amount will depend on the sale prices of the residential units.

12. Cyberport is a critical piece of infrastructure for the development and support of the IT and related industries in Hong Kong. By catalyzing the growth of the relevant industries, Cyberport will contribute significantly to the overall economic development of Hong Kong. This is the most

---

<sup>4</sup> There are different reserve funds for different purposes of the Project, such as the \$500 million Development Maintenance Fund (which was changed from \$200 million to \$500 million on 31 December 2003) is to be used by the HKCMCL for the purposes of the upkeep and maintenance of the Shared Cyberport Facilities.

important return on investment in Cyberport, which is wholly owned by the Government. As at March 2006, the commercial value of the Cyberport Portion was about \$4.35 billion according to an independent valuation, as compared with past valuations of about \$4.21 billion in March 2005 and \$2.89 billion in September 2004.

**Office of the Government Chief Information Officer  
Commerce, Industry & Technology Bureau  
March 2007**

## Annex C

### **Cyberport Arcade Tenancy Arrangements**

This paper provides background information on the tenancy arrangements for the Cyberport Arcade. It focuses on the Anchor-Tenant (A-T) approach to facilitate recruitment and management of retail outlets at the Arcade in line with the theme of the Arcade.

#### **Cyberport Arcade Leasing**

2. Leasing of the 166,000 square feet of retail space at the Cyberport Arcade is guided by a three-prong strategy, namely, an Arcade theme to guide tenant recruitment, the Anchor-Tenant (A-T) approach to secure a core set of retail outlets, and incentives that are essential to attract retail merchants to the shopping centre, which is still going through the nascent stage of development.

3. The leasing strategy was recommended by a professional Retail Leasing Agency (the Agent) that was engaged in mid-2001 as the result of a request-for-proposal exercise to advise the HKCMCL on the formulation of policy, strategy and theme for the letting of Arcade space as well as for the international marketing and sourcing of anchor tenants. The strategy closely followed normal commercial practice in the sector and was developed after extensive research of the global market.

#### **Anchor Tenant (A-T) Selection**

4. The A-T was appointed as a result of an extensive search in Japan, USA and Europe between late 2001 and early 2002. The Agent approached no less than thirteen (13) potential A-Ts. Discussion was conducted with at least four (4) substantive proposals from these prospects and one viable proposal was short-listed by the Agent after a 12-month process. Negotiation with the short-listed candidate ensued and an initial A-T agreement was signed in late 2002. Further negotiation resulted in the lease agreement in the present form in mid 2004.

5. As of 26 January 2007, 33% of the lettable retail space in the

Arcade was used by or sub-let through the Anchor Tenant (A-T). The A-T area was occupied by thirteen (13) retail outlets out of the total of twenty-seven (27) outlets in the Arcade. Any usage of the leased facilities by the A-T, broadly defined in the tenancy offer, is subject to the approval of the HK Cyberport Management Company Ltd. (HKCMCL), the landlord.

### **Arcade Theme**

6. The usage policy of the Arcade stipulates that it should be used for operation of exhibition, retail, food & beverages and entertainment facilities. This theme was used to determine the preferred trades to operate in the Arcade. It was developed through joint-consultation among the Landlord, the Cyberport Developer, the A-T and the Agent and was formally adopted in late 2003. It has a focus on “Youth and Happiness” and includes wedding concept, edu-tainment for children, consumer electronics (including IT gadgetry) and household products as well as a spa as the preferred trades.

### **Lease Terms**

7. As part of the Arcade leasing strategy, retailers are to be given incentives to set up and stay in the Arcade and such incentives include favourable leasing conditions. With the retail market downturn in the wake of SARS, it was evident that much stronger incentives were essential to attract major tenants, including the A-T to the Arcade.

8. Generally speaking, Arcade rent is linked to the gross revenue of the retail outlets and the nature of the incentives given are broadly similar for the A-T and other tenants. The level of incentives may be different depending on the size of the premises and the length of tenancy.

9. The strong incentives are in line with normal commercial practice and should not create any unfair or direct competition with other operators of shopping centres since the Cyberport Arcade has its distinct geographic and client market segment. There are also no inherent entry barriers for prospective tenants if the themes of their business are in line with those of the Arcade.

### **Background**

### *The Role of the Cyberport Arcade*

10. The role of the Cyberport Arcade is to complement the Cyberport offices and the Residential Portion (Bel-Air) to foster the development of an attractive, self-contained local community to visit, and to work and live in. It should provide visitors, workers and residents convenient access to the necessary consumer services. Its success can help build a critical mass in Cyberport that is essential to supporting its mission as the IT flagship of Hong Kong.

### *Constraints*

11. Cyberport commenced operation in 2002 with the admission of the first office tenant. The first retail tenant in the Arcade started operation in 2004. As of January 2007, office accommodation in Cyberport was more than 70% let. 84% of the lettable retail space in the Arcade has been let or occupied and there were fourteen (14) tenants including the A-T. The Residential Portion was partly occupied as phased residential development continued.

12. The local population (workers and residents) as well as visitor traffic at Cyberport have yet to build up to a critical mass. Public transport is limited because a small population does not create much incentive for the operators; that in turn does not help bring people to Cyberport and the Arcade.

13. As a result, retail operation in the Arcade is going through a period of low business volume and thin margin, despite efforts by the Hong Kong Cyberport Management Company Limited (HKCMCL) to draw crowds periodically through successful community events and functions.

### *Non-Anchor Tenant Letting*

14. The management of the HKCMCL directly controls the letting of all premises within the Arcade that are not covered by the A-T lease. Letting is done in line with the theme of the Arcade and Cyberport's mission, prudent commercial principles and normal market practice. Letting decisions are made by the HKCMCL Executive Committee or by the CEO under delegated authority given by the Committee.

**Office of the Government Chief Information Officer  
Commerce, Industry & Technology Bureau  
March 2007**

**Annex D****Public Missions of Cyberport**

- (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 centre of excellence in IT and digital media training for creating human capital 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.

-- End --