

**Information Requirement on the Cyberport Project
arising from the ITB Panel Meeting on 12 March 2007**

The Administration/Cyberport Management has been asked to provide the following information. The response, in italics, is based on information supplied by the Hong Kong Cyberport Management Company Limited (HKCMCL):

- (a) Whether favourable leasing terms/incentives in the form of rent-free periods have been offered to tenants of the Cyberport Portion (i.e. the Arcade and the office buildings), including the Anchor Tenant; and if yes, detailed information on the rent-free periods so granted, including the length of the rent-free periods and the amortization arrangements, if any, and set out in the form of a table indicating by tenant, the actual contracted rental rate, rent-free periods, other incentives offered and the effective net rent.

Yes, favourable leasing terms/incentives in the form of rent-free periods have been offered to tenants of the Cyberport Portion (i.e. the Arcade and the office buildings), including the Anchor Tenant.

As reported in paragraphs 11 and 15 of LC Paper No. CB(1)1065/06-07(19) (Report on the Cyberport Project (March 2007)) that was discussed at the Information Technology and Broadcasting Panel on 12 March 2007 (referred to as “The Cyberport Report 3/2007” below), favourable leasing terms/incentives including rent-free periods have been offered to tenants of the Cyberport Portion (i.e. including both the offices and the Arcade).

- (b) Whether the Administration/Cyberport management had made reference to the guidelines issued or established procedures promulgated by the Government Property Agency in selecting the Anchor Tenant and in drawing up Cyberport Arcade tenancy arrangements, and if not, the reasons for not doing so, as the Cyberport Portion is a government asset, the ownership of which is retained by the companies set up under the Financial Secretary Incorporated (FSI).

No, the HKCMCL had not made reference to the guidelines issued or established procedures promulgated by the Government Property Agency in selecting the Anchor Tenant and in drawing up Cyberport Arcade tenancy arrangements on the ground that the Government including the Government Property Agency has not promulgated any guidelines or procedures that are applicable to the HKCMCL.

The HKCMCL manages leasing of the Cyberport premises based on prudent commercial principles and adopts commercial best practice aiming to maximize return on the shareholder's asset under prevailing market conditions. Letting of the Cyberport Arcade space is handled by the professional Retail Leasing Agency that has been retained by HKCMCL, subject to the decisions of the HKCMCL Executive Committee or by the Chief Executive Officer of the HKCMCL under delegated authority given by the Committee. Tenancy for the Cyberport Portion is opened to all interested parties. A standing invitation with comprehensive leasing information is available on the Internet to all. All leasing transactions are reported to the HKCMCL Executive Committee, which comprises independent Non-Official Directors of the Company.

The leasing arrangements have been reported in paragraph 7 of Annex as well as Annex C in The Cyberport Report 3/2007.

- (c) In relation to paragraph 13 of LC Paper No. CB(1)1065/06-07(19) which states that the Anchor Tenant was admitted in mid-2004 as a result of an extensive search in Japan, USA and Europe undertaken by a professional retail-leasing agent, and no less than 13 potential anchor tenants had been approached and four substantive proposals had been considered, whether the substantive proposals were received and the Anchor Tenant was appointed as a result of the worldwide extensive search conducted by the agent, and whether the Anchor Tenant so appointed was from any of the countries (i.e. Japan, USA or Europe) in which the extensive search and sourcing of anchor tenants were conducted.

Yes, the substantive proposals were received and the Anchor Tenant was appointed as a result of the worldwide extensive search conducted by the agent, and the Anchor Tenant so appointed is a Hong Kong-based company.

As reported in The Cyberport Report 3/2007, the professional Retail Leasing Agency was engaged, among other duties, to carry out international marketing and sourcing of anchor tenants. Its marketing efforts extended beyond Hong Kong and covered other locations such as Japan, USA and Europe.

Among the thirteen (13) potential anchor tenants that the professional Retail Leasing Agency has approached, eight (8) were based in the US, one (1) in Singapore, one (1) in Australia, one (1) in Canada and two (2) in Hong Kong. The four (4) substantive proposals were received from companies that were based in Hong Kong (1), Europe (1) and US (2). The selected Anchor Tenant is a Hong Kong-based company.

- (d) A break-down of the tenants of the Arcade and the office buildings who were recruited locally and overseas, together with information on their respective rentals and rent-free periods.

As reported in The Cyberport Report 3/2007, thirty-six (36) out of sixty-six (66) office tenants are local enterprises and organizations. All (14) except one (1) of the Arcade tenants are local enterprises.

- (e) The breakdown of rental income in respect of the retail space at the Cyberport Arcade for the years 2003-04, 2004-05 and 2005-06.

Please see item (g) below.

- (f) The provisions in the contracts, if any, allowing the Anchor Tenant the rights of subleasing, and the monitoring and supervising roles of FSI as the landlord.

Yes, the Anchor Tenant is allowed to sub-lease and usage of the lease facilities is subject to the approval of the HKCMCL; please refer to The Cyberport Report 3/2007.

- (g) The breakdown of rental income in respect of the office buildings for the years 2003-04, 2004-05 and 2005-06.

(Also item (e) above)

The Rental income that was reported in the audited accounts of the Cyberport Companies in The Cyberport Report 3/2007 is represented by (HK\$):

Item / Year	2003-04	2004-05	2005-06
Office rental income	31,463,676	38,257,393	43,758,920
Arcade retail rental income (#)	0	293,796	5,982,681
Other retail rental income (#)	1,544,120	1,701,186	1,877,435
Total rental income	33,007,796	40,252,375	51,619,036

(#) Please see Annex for further breakdown.

The “Other retail rental income” was derived from the lease of the supermarket space and retail space in the common areas in the Office Buildings.

- (h) The breakdown and relevant information on the gross revenue of the retail outlets at the Cyberport Arcade, as according to the Administration/Cyberport management the Arcade rent is linked to the gross revenue of the retail outlets.

The aggregate gross revenue of retail outlets that is used in determining Arcade rental in accordance with the leasing agreements is \$6,062,550 for the month of October 2006, the latest month for which the information was available to the HKCMCL. The corresponding amount of rental linked to the turnover has

been collected in accordance with the relevant leases.

**Office of the Government Chief Information Officer
April 2007**

HONG KONG CYBERPORT MANAGEMENT COMPANY LIMITED
Office and Retail Income

Notes

	2004 HK\$	2005 HK\$	2006 HK\$	(a)
<u>Office</u>				
Rental Income	31,463,676	38,257,393	43,758,920	
Management Fee Income	22,079,717	27,166,339	32,796,981	
Total Office Income	53,543,393	65,423,732	76,555,901	
<u>Retail</u>				
Rental Income				
Arcade				
Base Rent	0	188,907	4,234,392	(b)
Turnover Rent	0	104,889	1,748,289	(c)
	0	293,796	5,982,681	
Other Retail				
Base Rent	1,443,632	1,674,941	1,830,111	(b)
Turnover Rent	100,488	26,245	47,324	(c)
	1,544,120	1,701,186	1,877,435	
Total Rental Income	1,544,120	1,994,982	7,860,116	
Management Fee Income				
Arcade				
	0	638,791	3,075,863	
Other Retail				
	908,309	907,331	1,702,011	
Total Management Fee Income	908,309	1,546,122	4,777,874	
Total Retail Income	2,452,429	3,541,104	12,637,990	
Total Office and Retail Income	55,995,822	68,964,836	89,193,891	

Notes:

(a) 2004 = Fiscal Year 2003/04; 2005 = Fiscal Year 2004/05; 2006 = Fiscal Year 2005/06

(b) Base Rent means the fixed rent payable as specified in the Lease Agreement.

(c) Turnover Rent means the sums calculated by reference to the stipulated percentage from time to time of the gross revenue of the Tenant's business as specified in the Lease Agreement.
HKCMCL confirms that the amount of rental linked to the turnover has been collected in accordance with the relevant leases.