

**For discussion  
on 10 March 2008**

## **Information Technology and Broadcasting Panel**

### **Report on the Cyberport Project (March 2008)**

#### **Purpose**

This paper provides an update on the progress of the Cyberport Project (the Project) including the financial performance of the Cyberport Companies<sup>1</sup> as reported in the audited accounts for the financial year ended 31 March 2007.

#### **Background**

2. At the Information Technology and Broadcasting Panel meeting on 12 March 2007, Members were briefed on the progress of the Project. Since then, the audited accounts of the Cyberport Companies for the financial year ended 31 March 2007 (the 2006/07 Accounts) (**Annex A**) were ready in December 2007. The financial performance of the Project as shown in the 2006/07 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 2006/07 Accounts of the Cyberport Companies are the third full-year report on the financial performance since the completion of the Cyberport Portion of the Project in June 2004.

4. For the year ended March 2007 (the 2006/07 financial year), the

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<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.

operating revenue of the Cyberport Companies was \$263 million, compared with \$188 million in 2005/06 and \$136 million in 2004/05. Correspondingly, the operating profit before financial costs, tax and depreciation and excluding Project Income from the ancillary development was \$36 million<sup>2</sup> in 2006/07 compared with operating losses of \$17 million in 2005/06 and \$77 million in 2004/05. The sustained improvement in the operating profit is due to increases in rental and management fee income as well as contribution from the Hotel operation. It is anticipated that the Companies will report significant growth in operating profit before Project Income in 2007/08. The Project Income from the ancillary development was \$3,615 million in 2006/07 and further Project Income is expected to be available until around 2009/10.

5. Rental income, management fee income and building management expenses are the major sources of operating income and expenses for the Project respectively. Rental and management fee income in 2006/07 continues to increase as a percentage over the previous year as compared with 2005/06, as a result of higher occupancy. This is summarized below with the percentage change over previous years shown in parentheses :

	(\$ million)		
	2006/07	2005/06	2004/05
Rental income	83.9 (+63%)	51.6 (+28%)	40.3 (+22%)
Management fee income	53.8 (+43%)	37.6 (+31%)	28.7 (+25%)
Building management expenses	104.0 (+17%)	89.1 (+17%)	76.3 (+37%)
Rental and Management fee income as percentage of Building management expenses	132%	100%	90%
Rental income consists of :			
Office rental income	70.7 (+61%)	43.8 (+14%)	38.3 (+22%)
Retail rental income	13.2 (+69%)	7.8 (+290%)	2.0 (+29%)

<sup>2</sup> \$36 million is the difference obtained by subtracting "Project income" from "Operating profit before depreciation" in the Consolidated Profit and Loss Account in Annex A. The numbers are \$36,424,341 for 2006/07, -\$17,125,435 for 2005/06 and -\$76,660,265 for 2004/05.

### *Office*

6. As of end January 2008, sixty-four (64) corporate tenants occupied 86.8% of the lettable office space, compared with 73.5% at end January 2007 and 54.3% at end January 2006. They consist of fifty-eight (58) commercial tenants, five (5) not-for-profit organizations and one (1) government office.

7. Forty-two percent (42%) of the commercial tenants have an overseas origin and thirty-four percent (34%) of the commercial tenants were new to Hong Kong. They created new business and employment opportunities for the local economy. Based on a survey conducted in November 2007, Cyberport office tenants employed around 3,600 workers; this represents a 25% overall increase since their establishment in Cyberport.

### *Arcade*

8. Growth in turnover-based retail rental income has been driven by a growing working and residential population in the area as well as the effort of the Cyberport management to increase visitor traffic during weekends and holidays. As of end January 2008, 84.8% of the lettable retail space in the Cyberport Arcade, which covers the majority of the retail space in the Cyberport Portion has been let or occupied by thirty-one (31) retail outlets, as compared with 84% and twenty-seven (27) outlets in January 2007.

### **Public Mission of Cyberport**

9. The mission of Cyberport is to establish itself as Hong Kong's information technology (IT) flagship and a regional hub for digital entertainment. Through the provision of state-of-the-art infrastructure, supporting facilities and favourable campus environment, Cyberport creates a strategic clustering effect among high quality IT and related enterprises as well as academic, research and industry support organisations, which plays a key role in Hong Kong's continued developments as a knowledge-based economy and helps promote a strong brand for Hong Kong as a leading digital city.

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

10. Cyberport continues to enhance its image as Hong Kong's IT flagship. This is evident in the number of incoming visits by high-ranking delegations from overseas countries and the Mainland, including ministerial level visits. Between March 2007 and January 2008, Cyberport received more than 130 delegations from over twenty (20) countries and the Mainland.

11. Cyberport was featured eight (8) times in overseas media between March 2007 and January 2008.

12. Thirty-three (33) cooperation agreements between Cyberport and local, Mainland or overseas organizations are in force. Apart from the Mainland, overseas countries concerned are Australia, Canada, Finland, US and Vietnam. These agreements enhance technological cooperation and exchange but more importantly the image of Hong Kong and Cyberport as a major player in the global IT arena.

13. The Cyberport management works 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 thirteen (13) countries from March 2007 to January 2008 for such purposes.

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

14. The sixty-four (64) office tenants form a good mix of twenty-seven (27) overseas enterprises, thirty (31) local enterprises, five (5) academic & research establishments and a government IT office. Programmes and activities organised in Cyberport extend beyond just Cyberport office tenants, and foster interactions between the office tenants and partners locally and around the world. Such interactions are necessary to facilitate the formation of strategic cluster of enterprises at Cyberport.

15. Large corporate tenants play an active role in industry development initiatives organized through Cyberport for the benefit of tenants and SMEs at large. This includes participation in advisory committees like that of the Hong Kong Wireless Development Centre, providing access to technology, technical information and other resources which would otherwise not be

available to SMEs. In respect of the development of mobile technology, for example, access to the latest 3G mobile devices, specifications and standards has been crucial in helping local SMEs stay in the forefront of technological development. IT corporations, both large and small, are also active players in the exchange and internship programmes organized through Cyberport.

16. The Cyberport Tenants Club is a focal point for community activities. Apart from promoting corporate citizenship among Cyberport tenants, such activities also provide valuable business networking opportunities both among tenants and with the industry and community at large.

### ***Support for Small and Medium Enterprises (SMEs)***

17. As of January 2008, twenty-six (26) out of fifty-eight (58) or 45% of the commercial office tenants were SMEs. In addition, the Cyberport Digital Entertainment Incubation-cum-Training Centre (the IncuTrain Centre) was home to thirty (30) on-site incubatee enterprises and the support base for another twelve (12) off-site incubatees. Cyberport provides these start-ups with an ideal nursing ground with excellent campus environment, proximity to successful multinationals as well as development and support facilities that are essential to their healthy growth.

18. Six (6) incubatees in the IncuTrain Centre have either attracted capital injection from investors or acquired by listed company or obtained licence agreement for their operation. Two (2) incubatees have graduated from the Centre upon successful completion of a programme of business development. Incubatees in the Centre have won a total of twenty-nine (29) industry awards, including Hong Kong ICT Awards and major awards in Sweden and Canada.

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

19. Cyberport continues to operate the various development and support centres including iResource Centre, Digital Media Centre, Digital Entertainment Incubation-cum-Training Centre, Hong Kong Wireless Development Centre and Digital Entertainment Industry Support Centre for the benefit of the local IT sector focusing on digital media, digital entertainment as well as wireless and mobile applications.

20. In November 2007, the Cyberport iResource Centre (iRC) won the World Summit Award 2007 for its Digital Rights Management (DRM) system as a distinguished online digital content marketplace. The system was voted one of five (5) most outstanding products in the e-Business Category among 650 entries nominated by 168 countries. The system, digitalcopyright.hk, is Hong Kong's first public DRM platform that enables digital content owners, mostly SMEs, to make their creative work available for secure and legal download over the Internet.

21. Hong Kong Wireless Development Centre (HKWDC) in Cyberport is the first location outside the Mainland that has installed the technology infrastructure for the development and testing of application solutions for TD-SCDMA, China's home-grown 3G standard. It provides Hong Kong companies with local access to the latest technology. Fourteen (14) TD-SCDMA wireless and mobile applications have been developed using HKWDC's facilities in the past year. Ten (10) innovative TD-SCDMA application solutions developed by Hong Kong were showcased at the international event Post & Telecommunication Expo 2007 in Beijing in September 2007 and at the Datang Mobile (大唐電信) TD-SCDMA Experience Centre in Beijing since October 2007. All these demonstrate the creativity and innovation of Hong Kong entrepreneurs.

22. The Digital Media Centre (DMC) provided advanced facilities and technology support to local enterprises engaged in game development, animation production, and film post-production such that they could enhance their competitiveness in the region. DMC also pioneered the production of High-definition (HD) Blu-Ray disks which is beneficial to the development of the digital media industry in Hong Kong in this HD era.

23. The various technology and industry support centres continued to provide valuable support to the IT industry with focus on the development of the wireless and mobile communications sector as well as the digital media sector through the networks of tenants, corporate members and the community at large. For instance, DMC has served more than 196 SMEs and 17 individuals; iRC has more than 8,000 registered clients and HKWDC has more than 120 corporate members in Hong Kong.

## ***Human Capital***

24. The strategic cluster of Cyberport tenants provides a natural cross-breeding ground for the development of our workforce in the IT sector. Cyberport management expands such opportunities by undertaking various support initiatives.

25. Cyberport organized twenty-three (23) professional training sessions from March 2007 to January 2008 which attracted more than 500 local IT practitioners from among its tenants as well as the industry at large.

26. In April 2007, DMC co-organized the Digital Terrestrial Television Broadcasting Conference on China's emerging digital terrestrial television broadcasting standard in collaboration with the Society of Motion Picture and Television Engineers (Hong Kong), as well as other key technology exchange and transfer programmes to bring awareness to the latest developments among local digital media practitioners. DMC also continued to provide venue and digital facilities to local academic institutions including Baptist University, University of Hong Kong, the Chinese University of Hong Kong, and Caritas Hong Kong to enable the digital media students exposed to advanced technologies.

27. Cyberport operates a sponsorship scheme to encourage tertiary institutions to organise IT-related exchange programmes with overseas or Mainland institutions. In 2007, forty-two (42) students from three (3) universities benefited from the scheme. Cyberport also co-organised with major IT firms and universities a government-funded IT internship programme that enabled sixty (60) graduates to gain practical working experience through attachment to local IT and digital entertainment companies. In collaboration with the British Council, Cyberport management in 2007 organised the Digital Pioneers programme to create a networking and synergy with the United Kingdom for our young digital entertainment entrepreneurs.

## **Conclusion**

28. Cyberport's sustained improvement in financial and tenancy performance has resulted in operating profitability in 2006/07. Cyberport has also delivered tangible results in its public mission. The management

team will continue its efforts in operating under commercial prudence principles and strengthening its public mission delivery in the years to come.

**Office of the Government Chief Information Officer  
Commerce and Economic Development Bureau  
March 2008**



**Annex A**

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31ST MARCH 2007**

	Note	2005 HK\$	2006 HK\$	2007 HK\$
Revenue	1	1,810,557,105	1,511,265,480	3,877,364,786
Other income	1	12,126,034	48,655,260	63,772,863
		<u>1,822,683,139</u>	<u>1,559,920,740</u>	<u>3,941,137,649</u>
Building management expenses		(76,340,110)	(89,097,260)	(103,961,155)
Staff costs		(53,702,809)	(62,246,674)	(70,010,667)
Information technology facilities maintenance fee		(25,942,884)	(24,476,861)	(23,506,122)
Government rent and rates		(17,350,524)	(11,489,066)	(10,644,511)
Other operating expenses	2	(51,293,486)	(66,245,143)	(81,993,945)
Operating expenses before depreciation		<u>(224,629,813)</u>	<u>(253,555,004)</u>	<u>(290,116,400)</u>
Operating profit before depreciation		1,598,053,326	1,306,365,736	3,651,021,249
Depreciation	4	(171,679,660)	(257,719,823)	(260,529,071)
Finance costs		-	(36,689)	(26,828)
Profit before income tax		<u>1,426,373,666</u>	<u>1,048,609,224</u>	<u>3,390,465,350</u>
Income tax expenses	3	(292,585,413)	(231,122,822)	(631,474,837)
Profit for the year		<u><u>1,133,788,253</u></u>	<u><u>817,486,402</u></u>	<u><u>2,758,990,513</u></u>

## HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET  
AS AT 31ST MARCH 2007

	Note	2005 HK\$	2006 HK\$	2007 HK\$
<b><u>Non-current assets</u></b>				
Property, plant & equipment	4	4,976,155,549	4,738,992,983	4,490,227,265
Loans receivable		1,611,019	922,490	272,703
Deferred rental receivable		11,926,423	13,308,072	16,778,847
Held-to-maturity investments	5	357,407,235	379,627,008	352,001,697
		<u>5,347,100,226</u>	<u>5,132,850,553</u>	<u>4,859,280,512</u>
<b><u>Current assets</u></b>				
Inventories, at cost	6	3,423,004	2,704,246	2,033,276
Trade and other receivables		14,970,283	16,319,875	18,134,635
Current portion of loans receivable		962,756	855,189	677,573
Amount due from shareholder		2	2	2
Income tax recoverable		489,463	1,241,040	-
Designated bank balance	5	32,018,634	6,487,009	3,033,315
Held-to-maturity investments	5	116,476,550	133,584,154	233,563,159
Cash and bank balances		117,046,382	170,220,430	717,755,707
		<u>285,387,074</u>	<u>331,411,945</u>	<u>975,197,667</u>
<b><u>Current liabilities</u></b>				
Trade and other payables		37,325,418	41,486,535	42,910,135
Current portion of finance lease liabilities		-	393,172	409,192
Rental and other deposits		17,299,652	26,862,833	38,801,150
Income tax payable		-	-	459,102,338
		<u>54,625,070</u>	<u>68,742,540</u>	<u>541,222,815</u>
<b>Net current assets</b>		<u>230,762,004</u>	<u>262,669,405</u>	<u>433,974,852</u>
<b>Total assets less current liabilities</b>		<u>5,577,862,230</u>	<u>5,395,519,958</u>	<u>5,293,255,364</u>
<b><u>Equity</u></b>				
Share capital	7	2	2	2
Capital reserve	8	5,243,614,513	5,250,315,433	5,255,383,384
Accumulated losses	9	(179,518,772)	(369,632,370)	(526,641,857)
<b>Total equity</b>		<u>5,064,095,743</u>	<u>4,880,683,065</u>	<u>4,728,741,529</u>
<b><u>Non-current liabilities</u></b>				
Development maintenance fund	5	500,000,000	500,000,000	500,000,000
Facilities maintenance fund	10	-	-	50,000,000
Deferred income	11	13,766,487	14,380,480	14,466,614
Finance lease liabilities		-	456,413	47,221
		<u>513,766,487</u>	<u>514,836,893</u>	<u>564,513,835</u>
		<u>5,577,862,230</u>	<u>5,395,519,958</u>	<u>5,293,255,364</u>

## HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 1. Revenue and other income

	2005 HK\$	2006 HK\$	2007 HK\$
<u>Revenue</u>			
Rental income	40,252,375	51,619,036	83,908,687
Management fee income	28,712,461	37,574,855	53,796,028
Income from hotel operation	51,601,223	79,792,117	100,128,065
Car park fee income	2,296,732	4,000,995	5,530,213
Information technology facilities income	1,506,984	1,398,759	2,137,393
Fees for usage of DMC and IRC equipment and services	1,260,608	2,271,057	4,141,893
Broadband service and installation fees	-	898,974	1,054,034
Other incidental income	10,213,131	10,218,516	12,071,565
	<u>135,843,514</u>	<u>187,774,309</u>	<u>262,767,878</u>
Project income	1,674,713,591	1,323,491,171	3,614,596,908
	<u>1,810,557,105</u>	<u>1,511,265,480</u>	<u>3,877,364,786</u>
<u>Other income</u>			
Amortisation of deferred income	4,892,795	20,830,729	25,818,216
Interest income from held-to-maturity investments, net of amortisation of premium	6,804,377	18,197,325	19,811,371
Interest income on bank deposits	23,753	9,220,399	17,913,423
Interest income on designated bank balance	318,746	330,216	150,676
Interest income on loans receivable	86,363	76,591	79,177
	<u>12,126,034</u>	<u>48,655,260</u>	<u>63,772,863</u>
	<u>1,822,683,139</u>	<u>1,559,920,740</u>	<u>3,941,137,649</u>

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

2. Other operating expenses

	2005 HK\$	2006 HK\$	2007 HK\$
Insurance			
- Hotel	1,015,414	739,782	591,051
- Others	3,646,924	3,366,846	2,747,654
	<u>4,662,338</u>	<u>4,106,628</u>	<u>3,338,705</u>
Professional fees	3,987,246	3,686,390	8,723,826
Marketing, promotion and project expenses	629,540	9,482,886	12,742,514
Travelling expenses	411,786	298,249	587,879
Transportation	1,278,608	810,000	480,000
Broadband service and installation expenses	-	511,496	669,310
Other hotel operation expenses	29,673,009	36,827,324	42,757,954
Other DMC, IRC & IncuTrain operating expenses	2,584,808	7,958,031	10,807,116
Hotel pre-opening expenses	6,383,867	-	-
Other miscellaneous expenses	1,682,284	2,564,139	1,886,641
	<u>51,293,486</u>	<u>66,245,143</u>	<u>81,993,945</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 HK\$	Building services and support facilities HK\$	Information technology facilities HK\$	DMC, IRC and IncuTrain equipment HK\$	Leasehold improvements HK\$	Furniture and equipment HK\$	Motor vehicles HK\$	Total HK\$
<b>Cost</b>								
At 1 April 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)
Reclassification	-	-	960,081	-	-	(960,081)	-	-
At 31 March 2005	3,832,061,688	1,153,153,118	215,388,696	52,854,148	829,012	4,439,933	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	222,089,616	56,589,019	3,295,510	12,094,901	702,668	5,279,986,520
Handover from Developer	-	-	5,067,951	-	-	-	-	5,067,951
Additions	-	-	1,062,211	1,147,840	399,200	4,108,853	-	6,718,104
Disposals	-	-	(43,940)	-	-	-	-	(43,940)
Reclassification	-	-	1,185,477	122,218	-	(1,307,695)	-	-
At 31 March 2007	3,832,061,688	1,153,153,118	229,361,315	57,859,077	3,694,710	14,896,059	702,668	5,291,728,635
<b>Accumulated depreciation</b>								
At 1 April 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	-	-	208,018	-	(3,482)	(204,536)	-	-
At 31 March 2006	164,189,442	243,342,062	109,228,179	20,084,898	572,551	3,118,913	457,492	540,993,537
Charge for the year	83,098,299	115,315,312	45,172,098	13,423,022	1,011,007	2,368,800	140,533	260,529,071
Disposals	-	-	(21,238)	-	-	-	-	(21,238)
Reclassification	-	-	256,853	70,735	-	(327,588)	-	-
At 31 March 2007	247,287,741	358,657,374	154,635,892	33,578,655	1,583,558	5,160,125	598,025	801,501,370
<b>Net book value</b>								
At 31 March 2005	3,750,970,545	1,025,126,368	150,212,965	45,381,696	746,910	3,331,355	385,710	4,976,155,549
At 31 March 2006	3,667,872,246	909,811,056	112,861,437	36,504,121	2,722,959	8,975,988	245,176	4,738,992,983
At 31 March 2007	3,584,773,947	794,495,744	74,725,423	24,280,422	2,111,152	9,735,934	104,643	4,490,227,265

**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

	2005 HK\$	2006 HK\$	2007 HK\$
Authorised:			
1,000 ordinary shares of HK\$1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Issued and fully paid:			
2 ordinary shares of HK\$1 each	<u>2</u>	<u>2</u>	<u>2</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.

	2005 HK\$	2006 HK\$	2007 HK\$
At the beginning of the year	2,357,537,940	5,243,614,513	5,250,315,433
Handover of the Cyberport project	2,886,076,573	-	-
Handover of plant and equipment	-	6,700,920	5,067,951
At the end of the year	<u>5,243,614,513</u>	<u>5,250,315,433</u>	<u>5,255,383,384</u>

9. Accumulated losses carried forward

	2005 HK\$	2006 HK\$	2007 HK\$
Accumulated profits before depreciation	1,214,558,917	1,178,961,167	3,190,859,513
Accumulated depreciation	<u>(283,273,714)</u>	<u>(540,993,537)</u>	<u>(801,501,370)</u>
Accumulated profits after depreciation	931,285,203	637,967,630	2,389,358,143
Dividend	<u>(1,110,803,975)</u>	<u>(1,007,600,000)</u>	<u>(2,916,000,000)</u>
Accumulated losses carried forward	<u>(179,518,772)</u>	<u>(369,632,370)</u>	<u>(526,641,857)</u>

**HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

10. It represents a reserve fund allocated from the Project fund for the purpose of maintenance and upgrading of the Cyberport Portion. This fund is deposited into designated bank accounts.

11. 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\$
<b>Cost</b>			
At 1 April 2004	9,330,000	916,804	10,246,804
Additions	9,191,000	-	9,191,000
	<hr/>	<hr/>	<hr/>
At 31 March 2005	18,521,000	916,804	19,437,804
Additions	12,033,860	9,410,862	21,444,722
	<hr/>	<hr/>	<hr/>
At 31 March 2006	30,554,860	10,327,666	40,882,526
Additions	13,278,311	12,626,039	25,904,350
	<hr/>	<hr/>	<hr/>
At 31 March 2007	43,833,171	22,953,705	66,786,876
	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation</b>			
At 1 April 2004	(763,241)	(15,281)	(778,522)
Credited to profit and loss account	(4,709,434)	(183,361)	(4,892,795)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	(5,472,675)	(198,642)	(5,671,317)
Credited to profit and loss account	(11,236,506)	(9,594,223)	(20,830,729)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	(16,709,181)	(9,792,865)	(26,502,046)
Credited to profit and loss account	(13,395,837)	(12,422,379)	(25,818,216)
	<hr/>	<hr/>	<hr/>
At 31 March 2007	(30,105,018)	(22,215,244)	(52,320,262)
	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>			
At 31 March 2005	13,048,325	718,162	13,766,487
	<hr/>	<hr/>	<hr/>
At 31 March 2006	13,845,679	534,801	14,380,480
	<hr/>	<hr/>	<hr/>
At 31 March 2007	13,728,153	738,461	14,466,614
	<hr/>	<hr/>	<hr/>

**Background of the Cyberport Project**

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 was completed in 2004 with four office buildings, a hotel and an arcade. The Residential Portion, Bel-Air, is being completed in phases from September 2004 to 2008.

**Public Missions**

3. The public missions of Cyberport are :
- (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; and

- (f) To promote the development of services and applications for wireless and mobile communications leveraging on Cyberport's excellent infrastructure and synergy.

### **Infrastructure and Industry Support**

4. 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 small and medium enterprises (SMEs) in the IT sector.

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

### **Cyberport Tenancy**

6. 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 criteria in support of Cyberport's public mission will be admitted as tenants.

### **Government Investment in Cyberport**

7. 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.

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<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.

8. 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.

9. As of January 2008, the Government has received a total of about \$9.95 billion in surplus proceeds. Based on the latest forecast by the Developer, a cumulative total of up to \$18.8 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.

10. 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 important return on investment in Cyberport, which is wholly owned by the Government. As of March 2007, the commercial value of the Cyberport Portion was about \$4.61 billion according to an independent valuation.

**Office of the Government Chief Information Officer  
Commerce and Economic Development Bureau  
March 2008**

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<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.