

**For discussion
on 9 March 2009**

Information Technology and Broadcasting Panel

**Report on the Cyberport Project
(March 2009)**

Purpose

This paper provides an update on the progress of the Cyberport Project (the Project). Project progress was last reported to the Panel at its meeting on 10 March 2008.

The Cyberport Project

2. Cyberport has the public missions to create a clustering effect for the Information Technology (IT) sector, support the development of IT start-up enterprises, develop a centre of excellence in IT and digital media training and promote the development of IT services and applications. Building a cluster and realizing benefits is a long-term undertaking, which results from construction of the Cyberport facilities and the recruitment of suitable tenants.

3. In the five years since practical completion in June 2004, Cyberport has established the foundations for making a significant long-term contribution to Hong Kong's IT sector and digital economy. It has achieved a healthy occupancy rate, with a portfolio of office tenants of the right mix. It has forged a strong working relationship with the IT sector, focusing on digital entertainment and content. It has established a financially healthy position.

4. We believe Cyberport has laid a solid foundation on which to accelerate the clustering effect, collaborate more closely with the rest of Hong Kong's information and communications technology (ICT) and creative industry infrastructure, and deliver enhanced public mission benefit. We are reviewing the role that Cyberport can play in supporting the

Statements of Desired Outcomes under the Digital 21 Strategy (**Annex A**). We will consult stakeholders, including Members as well as the Digital 21 Strategy Advisory Committee, to understand their expectations on Cyberport. We plan to brief this Panel again on the outcome of the review next year.

5. Paragraphs 6 to 34 below summarize the financial performance of the Cyberport Companies¹ and the Project progress made since the last Panel meeting. The audited accounts of the Companies for the financial year ended 31 March 2008 (the 2007/08 Accounts) are shown at **Annex B**. Background information on the Cyberport Project can be found in **Annex C**.

Financial Performance

6. For the 2007/08 financial year, the operating revenue of the Cyberport Companies was \$319 million, compared with \$263 million in 2006/07 and \$188 million in 2005/06. Correspondingly, the operating profit before financial costs, tax and depreciation and excluding Project Income from the ancillary development was \$103 million² in 2007/08, compared with an operating profit of \$36 million in 2006/07 and an operating loss of \$17 million in 2005/06.

7. Continuous improvements in rental and management fee income as well as the performance of the Hotel operation account for the growth in operating profit. The economic downturn in the latter part of 2008 has created uncertainties in income but the Companies are expected to maintain sustained growth in operating profit before Project Income in 2008/09.

8. The Project Income from the ancillary residential development was \$3.34 billion in 2007/08. Further Project Income is expected to be available until around 2010/11, the actual amount of which will be dependent on the sales performance of the residential units. To-date, the ancillary development has generated total cash proceeds of HK\$10.58 billion to the Government's General Revenue Account. This exceeds the capital

¹ 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.

² \$103 million is the difference obtained by subtracting "Project income" from "Operating profit before depreciation" in the Consolidated Profit and Loss Account in **Annex B**. The numbers are \$103,226,890 for 2007/08, \$36,424,341 for 2006/07 and -\$17,125,435 for 2005/06.

contribution of HK\$7.93 billion that the Government has made to the Project in the form of land grant for the ancillary development and the associated essential infrastructure development.

9. The market value of Cyberport based on independent valuation in March 2008 was HK\$5.98 billion.

10. Rental income, management fee income, management-related revenue and building management expenses are the major sources of operating income and expenses for the Companies respectively. Rental income, management fee income and management-related revenue in 2007/08 continue to increase as a percentage over the preceding year, as a result of higher occupancy.

Office and Arcade Occupancy

11. As of end January 2009, fifty-eight (58) corporate tenants occupied 87.9% of the lettable **office** space, compared with 86.8% at end January 2008 and 73.5% at end January 2007. They consist of fifty-two (52) commercial tenants, five (5) not-for-profit organizations and one (1) government office.

12. Fifty percent (50%) of the commercial tenants have an overseas origin and thirty-eight percent (38%) 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 October 2008, Cyberport office tenants employed around 4,000 workers; this represents a 32% overall increase since their establishment in Cyberport.

13. As of end January 2009, 83.6% of the lettable retail space in the **Arcade**, which covers the majority of the retail space in the Cyberport Portion, has been let or occupied by twenty-nine (29) retail outlets as compared with 84.8% and thirty-one (31) outlets in January 2008.

External Relations

14. Cyberport has maintained a positive worldwide image. Between March 2008 and January 2009, Cyberport received more than 110 delegations from over twenty-two (22) countries and the Mainland.

15. Cyberport is engaged in technological exchange and cooperation with organizations in Hong Kong, Mainland and overseas countries including Australia, Canada, Japan, US and Vietnam, through forty-one (41) cooperation agreements. Events are held with internationally renowned speakers from Singapore, Taiwan, Mainland, USA as well as hundreds of participants from the region.

16. Cyberport management continues to work closely with InvestHK and the Government's Economic and Trade Offices to promote Cyberport and recruit overseas tenants.

Strategic Cluster of IT & Related Enterprises

17. Out of the fifty-eight (58) Cyberport office tenants, twenty-six (26) are from overseas, twenty-six (26) are local, five (5) are academic and research establishments and the remaining one a government IT office. Events and activities organized in Cyberport attracted not only the Cyberport office tenants but also participants from other parts of Hong Kong, overseas countries and the Mainland. This out-reach approach has helped create the clustering effects of the Cyberport tenants and increased the interaction between local, overseas and Mainland industry players.

18. The programmes implemented by the Hong Kong Wireless Development Centre (HKWDC) at Cyberport including the 3G test-bed and TD-SCDMA platform are good examples of where the clustering and synergistic effects have benefits for the ICT enterprises in Cyberport and those located outside Cyberport, especially in areas of specifications and standards of wireless and mobile technology. A number of wireless applications have been developed and made available to local enterprises as a result. This has enhanced their technological capabilities and the competitiveness of local enterprises.

19. The Cyberport Tenants Club also promotes corporate citizenship among Cyberport tenants through organizing community activities. Such activities also create interactions and exchange opportunities among and beyond Cyberport office tenants.

Support for Small and Medium Enterprises (SMEs)

20. As of January 2009, nineteen (19) out of fifty-two (52) or 36.5% of the commercial office tenants were SMEs. Cyberport has been facilitating the development of IT and digital media SMEs by maintaining an appropriate level of office tenancy for SMEs as its core tenants.

21. The Cyberport Digital Entertainment Incubation-cum-Training Centre provides a good breeding ground for new entrants and start-up companies as well as existing practitioners in the discipline who are in need of support to develop their technical know-how or business skills. The Centre has been actively promoting international networking with overseas partners in Canada, the UK, Japan and Mainland China. The incubation programme has received widespread support from the industry in the form of in-kind sponsorship (e.g. software development kits for games and digital entertainment development) which has facilitated the incubatees in their products and/or business development. The Centre also helps promote the incubatees and their products and services via various overseas and local trade shows and exhibitions. The Centre received 108 applications and has admitted a total of 62 incubatees (exceeding the original target of 45). A total of 27 incubatees have already graduated. A survey in January 2009 showed that the incubatees created a total of 343 jobs, among both current incubatees and alumni. By end-January 2009, the 27 Incu-Train alumni reported that they have developed 64 original intellectual properties (IPs) during their incubation periods. On 12 December 2008, the Finance Committee approved additional provision of \$25.2 million from the Innovation and Technology Fund to support the Centre to extend its service for a period of 3 years up to 2012 aimed at incubating a further 55 digital entertainment or media start-ups.

22. On international trade promotion, HKWDC in Cyberport helps recruit enterprises including SMEs engaged in wireless and mobile technologies to form delegations to overseas countries/regions such as the Middle East, Malaysia and Singapore, Australia and South Korea to explore business and cooperation opportunities.

State-of-the-art Infrastructure

23. In order to foster the development of the local IT sector, and in

particular the industry of digital media and wireless and mobile technologies, Cyberport continues to operate the various development and support centres including iResource Centre, Digital Media Centre (DMC), Digital Entertainment Incubation-cum-Training Centre, and HKWDC, and offers the necessary services and facilities to the industry.

24. HKWDC implemented a “Ubiquitous City – HK” project to stimulate the wireless application development and usage in Hong Kong. Eight applications were developed and will be launched in the public WiFi network including the GovWiFi network. This promotes the Ubiquitous City image of Hong Kong and facilitates the usage of WiFi by the general public.

25. HKWDC worked closely with the Mainland’s 3G organization Guangzhou Navigation Association in promoting the opportunities and strategies of mobile and vehicle navigation technologies in the two places.

26. In respect of technological cooperation, HKWDC and iResource Centre separately signed collaboration agreements with Mainland and overseas counterparts in October and November 2008 to enhance technological cooperation. The DMC also worked with industry bodies such as the Asia High-Definition Association to promote the latest high-definition technologies.

27. In terms of intellectual property protection, Cyberport was admitted by the China Digital Rights Management (DRM) Forum as a standard drafting committee member, which entitles it to exchange with experts and industry practitioners in drafting the DRM standards and share resources related to DRM development on the Mainland.

Human Capital

28. The clustering effect of Cyberport tenants and the campus-like environment provide an excellent ground for the fostering of our IT talent. Coupled with the human resources-related initiatives undertaken by Cyberport, there is substantial benefit to the development of our IT and digital media industry.

29. Cyberport organized twenty-six (26) professional training sessions

from March 2008 to January 2009 which attracted more than 1,034 local IT practitioners from among its tenants as well as the industry at large. This helped to enhance their technology and business development skills, broaden their vision in the industry, and expand their business network.

30. Cyberport spares no effort to introduce our younger generation to the latest IT and digital media technology by receiving visits of secondary school students. From March 2008 to January 2009, over 2,000 students from more than 50 schools or local community organizations visited Cyberport.

31. Apart from students, Cyberport's programmes for our young people such as creative technology talents awards, the LEAD project in Cyberport, HK Youth 3D Animation Competition 2008, training on high-definition production, and Good Student Awards 2008 provided ample opportunity for them to learn and apply creativity and digital technologies.

32. Cyberport partnered with an internationally famous game company to deliver a 9-month long professional training series on game design, game programming, game visual art, and game production to local young people for the sake of widening their exposure and raising their game development capability. The training courses altogether attracted 850 participants. The programme provided a good breeding ground for new entrants and start-up companies as well as existing practitioners in the discipline who were in need of support to develop their technical know-how or business skills. The programme helps create a capable and versatile talent base which is adaptable and re-deployable during economic transitions.

33. DMC continued to provide venue and digital facilities to local academic institutions to give their students exposure to advanced digital media technologies.

34. Cyberport operates a sponsorship scheme to encourage tertiary institutions to organize IT-related exchange programmes with overseas or Mainland institutions. In 2008, forty-six (46) students from five (5) universities benefited from the scheme. Cyberport also co-organized with IT firms and universities a government-funded IT internship programme that enabled seventy-four (74) graduates to gain practical working experience through attachment to local IT and digital entertainment companies. In

collaboration with the British Council, Cyberport management supported the “Living together, innovating together – 48-hour Inclusive Design Challenge” on digital inclusion solutions. The winning team showed their solutions at the London Design Festival in September 2008.

Advice Sought

35. Members are requested to note the progress of the Project and the plan for reviewing its role in supporting the Statements of Desired Outcomes under the Digital 21 Strategy.

**Office of the Government Chief Information Officer
Commerce and Economic Development Bureau
March 2009**

**Statements of Desired Outcomes
of the Five Action Areas under 2008 Digital 21 Strategy**

Facilitating a Digital Economy:

Hong Kong has the standards, infrastructure, legal framework and talent that are needed to facilitate a vibrant digital economy, and to enable our core industries to sustain and improve their competitive position. Our community, individuals and businesses are aware of the opportunities brought by a knowledge-based society and have confidence in their ability, skills and professionalism to take full advantage of the opportunities to enhance our economic prosperity and quality of life.

Promoting Advanced Technology and Innovation:

Hong Kong is a leading Asia Pacific location for research and innovation – both in technology and in developing innovative business models. We attract talent and investment locally, regionally and globally and maximise the benefits of collaboration with mainland research and development efforts. Open competition gives market participants the incentive to invest in advanced information and communications technology (ICT) to meet market needs.

Developing Hong Kong as a Hub for Technological Cooperation and Trade:

Business establishments located in Hong Kong play a significant role in the local, global and Mainland markets for ICT and digital content services. Innovative ICT-enabled business models are used to compete globally in many other areas. Collaboration with international and Mainland entities is a major factor in successfully serving a variety of export markets as well as Mainland and local customers.

Enabling the Next Generation of Public Services:

The Government provides people with the services they need, in an efficient, convenient manner, which is as pleasurable and straightforward as dealing with the most customer-friendly organizations in the commercial and voluntary sectors. Government policy priorities such as healthcare reform are enabled by appropriate and world-leading use of ICT. The internal efficiency

of Government approaches that of the most efficient commercial organizations. Transparency and public engagement are enhanced through leveraging ICT.

Building an Inclusive, Knowledge-based Society:

Residents, businesses, and voluntary organisations in Hong Kong are all able to take advantage of ICT to create, access, utilise and share information and knowledge as well as for leisure and entertainment, so that they can achieve their full potential in improving their quality of life. There is a culture of healthy and ethical use of ICT, promoted and protected by knowledgeable users and by the justice system.

Annex B

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

	Note	2006 HK\$	2007 HK\$	2008 HK\$
Revenue	1	1,511,265,480	3,877,364,786	3,657,696,216
Other income	1	48,655,260	63,772,863	80,641,038
		<u>1,559,920,740</u>	<u>3,941,137,649</u>	<u>3,738,337,254</u>
Building management expenses		(89,097,260)	(103,961,155)	(120,178,463)
Staff costs		(62,246,674)	(70,010,667)	(68,148,369)
Information technology facilities maintenance fee		(24,476,861)	(23,506,122)	(20,307,705)
Government rent and rates		(11,489,066)	(10,644,511)	(9,018,128)
Other operating expenses	2	(66,245,143)	(81,993,945)	(78,595,003)
Operating expenses before depreciation		<u>(253,555,004)</u>	<u>(290,116,400)</u>	<u>(296,247,668)</u>
Operating profit before depreciation		1,306,365,736	3,651,021,249	3,442,089,586
Depreciation	4	(257,719,823)	(260,529,071)	(256,175,221)
Finance costs		(36,689)	(26,828)	(10,809)
Profit before income tax		<u>1,048,609,224</u>	<u>3,390,465,350</u>	<u>3,185,903,556</u>
Income tax expenses	3	(231,122,822)	(631,474,837)	(584,829,117)
Profit for the year		<u>817,486,402</u>	<u>2,758,990,513</u>	<u>2,601,074,439</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2008

	Note	2006 HK\$	2007 HK\$	2008 HK\$
<u>Non-current assets</u>				
Property, plant & equipment	4	4,738,992,983	4,490,227,265	4,261,580,935
Loans receivable		922,490	272,703	18,841
Deferred rental receivable		13,308,072	16,778,847	17,478,546
Held-to-maturity investments	5,10	379,627,008	352,001,697	60,395,276
		<u>5,132,850,553</u>	<u>4,859,280,512</u>	<u>4,339,473,598</u>
<u>Current assets</u>				
Inventories, at cost	6	2,704,246	2,033,276	843,302
Trade and other receivables		16,319,875	18,134,635	27,623,733
Current portion of loans receivable		855,189	677,573	253,829
Amount due from shareholder		2	2	-
Income tax recoverable		1,241,040	-	-
Designated bank balance	5,10	6,487,009	3,033,315	207,106,669
Held-to-maturity investments	5,10	133,584,154	233,563,159	342,592,247
Cash and bank balances		170,220,430	717,755,707	491,446,779
		<u>331,411,945</u>	<u>975,197,667</u>	<u>1,069,866,559</u>
<u>Current liabilities</u>				
Trade and other payables		41,486,535	42,910,135	50,437,328
Current portion of finance lease liabilities		393,172	409,192	47,221
Rental and other deposits		26,862,833	38,801,150	55,544,482
Income tax payable		-	459,102,338	109,718,527
		<u>68,742,540</u>	<u>541,222,815</u>	<u>215,747,558</u>
Net current assets		<u>262,669,405</u>	<u>433,974,852</u>	<u>854,119,001</u>
Total assets less current liabilities		<u>5,395,519,958</u>	<u>5,293,255,364</u>	<u>5,193,592,599</u>
<u>Equity</u>				
Share capital	7	2	2	2
Capital reserve	8	5,250,315,433	5,255,383,384	5,269,709,403
Accumulated losses	9	(369,632,370)	(526,641,857)	(637,567,418)
Total equity		<u>4,880,683,065</u>	<u>4,728,741,529</u>	<u>4,632,141,987</u>
<u>Non-current liabilities</u>				
Development maintenance fund	5	500,000,000	500,000,000	500,000,000
Facilities maintenance fund	10	-	50,000,000	50,000,000
Deferred income	11	14,380,480	14,466,614	11,450,612
Finance lease liabilities		456,413	47,221	-
		<u>514,836,893</u>	<u>564,513,835</u>	<u>561,450,612</u>
		<u>5,395,519,958</u>	<u>5,293,255,364</u>	<u>5,193,592,599</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Revenue and other income

	2006 HK\$	2007 HK\$	2008 HK\$
<u>Revenue</u>			
Rental income	51,619,036	83,908,687	117,095,776
Building management income			
Management fee income	37,574,855	53,796,028	66,491,564
Car park fee income	4,000,995	5,530,213	6,915,113
Other facilities income	10,159,430	11,801,417	13,805,335
	51,735,280	71,127,658	87,212,012
Income from hotel operation	79,792,117	100,128,065	105,392,652
Information technology facilities income	1,398,759	2,137,393	2,316,384
Fees for usage of DMC and IRC equipment and services	2,271,057	4,141,893	5,486,746
Broadband service and installation fees	898,974	1,054,034	1,097,579
Other incidental income	59,086	270,148	232,371
	<u>187,774,309</u>	<u>262,767,878</u>	<u>318,833,520</u>
Project income	1,323,491,171	3,614,596,908	3,338,862,696
	<u>1,511,265,480</u>	<u>3,877,364,786</u>	<u>3,657,696,216</u>
<u>Other income</u>			
Amortisation of deferred income	20,830,729	25,818,216	26,623,236
Interest income from held-to-maturity investments, net of amortisation of premium	18,197,325	19,811,371	21,813,655
Interest income on bank deposits	9,220,399	17,913,423	30,350,609
Interest income on designated bank balance	330,216	150,676	1,777,973
Interest income on loans receivable	76,591	79,177	75,565
	<u>48,655,260</u>	<u>63,772,863</u>	<u>80,641,038</u>
	<u>1,559,920,740</u>	<u>3,941,137,649</u>	<u>3,738,337,254</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Other operating expenses

	2006 HK\$	2007 HK\$	2008 HK\$
Insurance			
- Hotel	739,782	591,051	192,992
- Others	3,366,846	2,747,654	2,793,447
	<u>4,106,628</u>	<u>3,338,705</u>	<u>2,986,439</u>
Professional fees	3,686,390	8,723,826	2,920,977
Marketing, promotion and project expenses	9,482,886	12,742,514	17,388,684
Travelling expenses	298,249	587,879	551,942
Transportation	810,000	480,000	480,000
Broadband service and installation expenses	511,496	669,310	682,805
Other hotel operation expenses	36,827,324	42,757,954	40,493,591
Other DMC, IRC & IncuTrain operating expenses	7,958,031	10,807,116	10,727,434
Other miscellaneous expenses	2,564,139	1,886,641	2,363,131
	<u>66,245,143</u>	<u>81,993,945</u>	<u>78,595,003</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\$
Cost								
At 1 April 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
Handover from Developer	-	-	14,326,019	-	-	-	-	14,326,019
Additions	-	-	2,327,880	358,222	4,461,564	6,095,515	-	13,243,181
Disposals	-	(17,500)	(49,846)	-	-	(18,928)	-	(86,274)
At 31 March 2008	3,832,061,688	1,153,135,618	245,965,368	58,217,299	8,156,274	20,972,646	702,668	5,319,211,561
Accumulated depreciation								
At 1 April 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
Charge for the year	83,098,299	115,315,021	43,061,853	10,524,274	1,125,307	2,950,735	99,732	256,175,221
Disposals	-	(6,709)	(38,217)	-	-	(1,039)	-	(45,965)
At 31 March 2008	330,386,040	473,965,686	197,659,528	44,102,929	2,708,865	8,109,821	697,757	1,057,630,626
Net book value								
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
At 31 March 2008	3,501,675,648	679,169,932	48,305,840	14,114,370	5,447,409	12,862,825	4,911	4,261,580,935

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

	2006 HK\$	2007 HK\$	2008 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.

	2006 HK\$	2007 HK\$	2008 HK\$
At the beginning of the year	5,243,614,513	5,250,315,433	5,255,383,384
Handover of plant and equipment	6,700,920	5,067,951	14,326,019
At the end of the year	<u>5,250,315,433</u>	<u>5,255,383,384</u>	<u>5,269,709,403</u>

9. Accumulated losses carried forward

	2006 HK\$	2007 HK\$	2008 HK\$
Accumulated profits before depreciation	1,178,961,167	3,190,859,513	3,132,063,208
Accumulated depreciation	<u>(540,993,537)</u>	<u>(801,501,370)</u>	<u>(1,057,630,626)</u>
Accumulated profits after depreciation	637,967,630	2,389,358,143	2,074,432,582
Dividend	<u>(1,007,600,000)</u>	<u>(2,916,000,000)</u>	<u>(2,712,000,000)</u>
Accumulated losses carried forward	<u>(369,632,370)</u>	<u>(526,641,857)</u>	<u>(637,567,418)</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\$
Cost			
At 1 April 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
Additions	7,692,170	15,915,064	23,607,234
	<hr/>	<hr/>	<hr/>
At 31 March 2008	51,525,341	38,868,769	90,394,110
	<hr/>	<hr/>	<hr/>
Accumulated amortisation			
At 1 April 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)
Credited to profit and loss account	(10,330,615)	(16,292,621)	(26,623,236)
	<hr/>	<hr/>	<hr/>
At 31 March 2008	(40,435,633)	(38,507,865)	(78,943,498)
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 31 March 2006	13,845,679	534,801	14,380,480
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2007	13,728,153	738,461	14,466,614
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2008	11,089,708	360,904	11,450,612
	<hr/> <hr/>	<hr/> <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) hub 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 June 2004 with four office buildings, a hotel and an arcade. The Residential Portion, Bel-Air, was completed in November 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)³; 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.

8. Surplus proceeds from the sale of the residential units, after deducting reserve funds⁴ and relevant expenses are shared between the

³ 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.

⁴ 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.

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 February 2009, the Government has received a total of about \$13.93 billion in surplus proceeds. Based on the latest forecast by the Developer, a cumulative total of up to \$18.03 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 2008, the market value of the Cyberport Portion was about \$5.98 billion according to an independent valuation.

**Office of the Government Chief Information Officer
Commerce and Economic Development Bureau
March 2009**