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Panel on Information Technology and Broadcasting

Meeting on 10 March 2014

Background brief on Cyberport Project

Purpose

This paper provides background information on the Cyberport Project and a summary of views and concerns expressed by the Panel on Information Technology and Broadcasting ("the Panel") in previous discussions on the subject.

Background

2. The Government announced its decision to proceed with the Cyberport Project in the 1999-2000 Budget as a move to provide the essential infrastructure for the formation of a strategic cluster of information services companies. On 17 May 2000, the Government, through three private and wholly-owned companies¹ set up under the Financial Secretary Incorporated ("FSI"), signed a Project Agreement with the Cyber-Port Limited which is a company set up by the Pacific Century Group as the Cyberport Developer. The development right of the Cyberport was granted to the Developer on 8 June 2000.

3. The Cyberport Project, which occupies 24 hectares of land at Telegraph Bay, Pokfulam, comprises a Cyberport Portion and an ancillary Residential Portion. The Cyberport Portion was practically completed in June 2004 (though Cyberport 4 was opened in December 2004). It has four office buildings, a hotel and an arcade. The Cyberport Portion aims to create a strategic cluster of leading information technology ("IT") and information services ("IS") companies and a critical mass of professional

¹ The three companies are Hong Kong Cyberport Development Holdings Ltd, Hong Kong Cyberport Management Company Ltd, and Hong Kong Cyberport (Ancillary Development) Ltd.

IT/IS talents in Hong Kong in the shortest possible time. The Residential Portion, the revenue from which is used to drive the Cyberport Project, had been developed in phases since September 2004 and completed in November 2008.

4. As a major breeding ground for local information and communications technology ("ICT") talents, Cyberport aims to nurture and strengthen local ICT start-ups. Cyberport carries out this objective mainly through the Incubation Programme and the Cyberport Creative Micro Fund ("CCMF") Scheme. The Incubation Programme provides financial, technical and business advisory supports to ICT start-ups to help them turn creative ideas into business undertakings or commercial products. CCMF provides seed funding of \$100,000 each for companies to develop innovative ICT-related prototypes in a six-month project period.

5. According to the Cyberport Project Agreement, the surplus proceeds from the sale of the residential units will be shared according to the respective capital contributions of the Government (64.5%) and the Cyberport Developer (35.5%). The FSI companies will retain 100% ownership of the Cyberport Portion, and the rental income and any other income to be generated from the Cyberport Portion belong to the FSI companies. As at January 2014, the Government has received a total of about \$19.2 billion in surplus proceeds. This exceeds the Government's capital contribution of \$7.93 billion in the form of land grant for the residential development and associated essential infrastructure. For the 2012-2013 financial year, the operating revenue (excluding Project Income from the residential development) of the Cyberport Companies was \$407 million, compared with \$388 million in 2011-2012 and \$361 million in 2010-2011.

Previous discussions

6. The Panel has followed closely the implementation of the Cyberport Project since September 1999. Panel members also visited the Cyberport in 2001, 2003, 2004, 2006, 2011 and 2013. The Panel has been very keen to ensure that the Project can meet its public missions² so as to create a strategic cluster and critical mass of leading IT companies.

² The public missions of the Cyberport Project 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 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.

In this respect, members have requested that the Cyberport management should, in reporting on the Cyberport Project, provide quantifiable information such as the extent of achievement for each of the public missions for members' evaluation. Such information should include how far Cyberport has helped Hong Kong develop into a leading digital city in the region, and the extent to which small and medium enterprises ("SMEs") in the ICT industry have been nurtured and supported.

Overseas collaboration

7. At the Panel meeting on 12 April 2012, some Panel members opined that the Cyberport had not yet managed to achieve some of its public missions, such as "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". These members also opined that apart from fostering IT exchanges with the Mainland, Hong Kong should step up exchanges with other countries in the Asia Pacific region such as Korea and Taiwan. The Cyberport management advised that in order to help the incubatees survive after graduation from the Incubation Programme, the Cyberport had established the Collaboration Centre to assist SMEs in the ICT sector to explore and capture emerging business opportunities in other markets.

Incubation Programme and Cyberport Creative Micro Fund

8. At the Panel meeting on 27 March 2013, the Panel noted that since 2005 and up to February 2013, the Incubation Programme had admitted 189 ICT start-ups, of which 95 were on-site incubatees each receiving support amounting to \$530,000, including free office accommodation for two years, access to advanced ICT facilities and resources, business support as well as mentorship and training in entrepreneurship and technology. The 94 off-site incubatees were each given support of about \$330,000, which covered similar offers except office rental. These incubatees had created 967 job opportunities, won 106 industry awards, and created 103 intellectual properties. The Panel also noted that up to February 2013, Cyberport incubatees had attracted over \$55 million investment funding and CCMF had granted a total of \$5.3 million to 53 projects which demonstrated potential for development.

9. Noting that an incubatee which developed mobile sports apps was invited by a famous sports brand to participate in their exchange programme in the United States, some Panel members opined that criteria should be adopted to measure the effectiveness of the Cyberport Incubation Programme, such as through benchmarking by comparing with neighbouring countries with similar supporting programmes to assess the

growth of start-ups. The Cyberport management advised that criteria had been used in different levels to assess the effectiveness of the Incubation Programme. These included the increase in the number of incubatees, the continued development of the incubatees and whether the incubatees had attracted any angel funding. The Cyberport management had not conducted any benchmarking but would continue to enhance overseas exchanges with neighbouring countries.

Occupancy rate

10. Some other Panel members called upon the Cyberport management to improve the occupancy rate of Cyberport's lettable office space and to continue to charge its tenants concessionary rent to support their development. The Cyberport management advised that the occupancy rate of Cyberport's lettable office space was steady in the last two years due to natural turnovers and its stringent selection criteria for tenants. In fact, Cyberport had charged its tenants market rent but only technology-themed tenants would be admitted. The Cyberport management would continue its efforts to improve the occupancy rate which was expected to increase given its nearby access to the MTR in the near future.

Latest position

11. The Administration and the Cyberport management will report to the Panel at its meeting on 10 March 2014 the progress of the Cyberport Project.

Relevant papers

12. A list of the relevant papers with their hyperlinks is at:

http://www.legco.gov.hk/database/english/data_itb/itb-cyberport.htm