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Panel on Information Technology and Broadcasting

Meeting on 8 February 2010

Updated background brief on Cyberport Project

Purpose

This paper provides the background to the Cyberport Project (the Project) and an update on the concerns raised by the Panel on Information Technology and Broadcasting on the Project in 2009.

Background

2.   The Government announced its decision to proceed with the 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 companies[1] 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 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 IT/IS talents in Hong Kong in the shortest possible time.   The Residential Portion, the revenue from which is used to drive the Project, has been

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

developed in phases since September 2004 and completed in November 2008.

4.   According to the 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%). As of December 2009, the Government has received a total of about $16.65 billion in surplus proceeds. Further surplus distributions will be made up to 2010. 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.

Discussions by the Panel on Information Technology and Broadcasting

5.   The Panel has followed closely the implementation of the Project since September 1999. The Panel also visited the Cyberport in 2001, 2003, 2004 and 2006.

Public missions

6.   The Panel has all along been very keen to ensure that the Project can meet its public missions[2] so to create a strategic cluster and critical mass of leading IT companies. In this respect, Panel members have requested that the Hong Kong Cyberport Management Company Limited (HKCMCL) should, in reporting on the Project in the future, 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 IT industry had been nurtured and supported.

7.   At the Panel meeting on 9 March 2009, some members reiterated their objection to the Project and opined that it was a case of favouritism which provided an opportunity for the Cyberport Developer to make massive profits from the ancillary residential development. They also expressed disappointment at the lack of progress of the Cyberport in achieving its public missions of developing a regional centre of excellence in IT, and creating a strategic cluster of quality IT and IT-related companies for developing Hong Kong into a leading digital city in the

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[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.

region. At the request of the Panel, the Administration had provided supplementary information on examples and figures to illustrate the progress in achieving the six missions of the Project (issued vide LC Paper No. CB(1)2564/08-09(01) on 7 September 2009). An extract of the relevant information is given in the **Appendix**.

Support for SMEs

8. Panel members enquired about the support for incubatees which had a competitive edge in the international market under the Incubation-cum-Training Programme (Incu-Train Programme). They also enquired about measures taken by the Cyberport to retain its incubatees.

9. The Administration advised that the Incu-Train Centre specialized in the incubation and training of SMEs engaged in digital entertainment and digital content production. Only companies registered in Hong Kong were allowed to apply for the Incu-Train Programme. The incubatees enjoyed a rent-free office and financial assistance in equipment rental and training expenses of up to 75% at the Cyberport. Individual tenants with genuine difficulty in paying rents were given special consideration on a case-by-case basis. Apart from on-site incubatees, the Incu-Train Programme also admitted off-site incubatees. Instead of contractually binding the incubatees from relocating their bases, the HKCMCL relied on the Cyberport's own competitiveness to retain the incubatees.

Return on the Government's investment on the Cyberport Project

10. The Panel has been very concerned about the return on the Government's investment on the Project in order to ascertain whether public money has been put to good use. In this respect, members have requested that annual briefings on the financial status of the Project should be made to the Panel, and the Administration and the HKCMCL should list side by side relevant figures for the past few years in the consolidated account report for members' reference.

11. At the meeting on 9 March 2009, the Panel noted that the operating revenue of the Cyberport Companies for the year ended 31 March 2008 was only $319 million, whilst the operating expense before depreciation was $296 million. Some members were concerned whether the operating profit would continue to decline in the wake of the financial crisis and even turn into a deficit. The HKCMCL explained that the operating profit was on a rising trend over the past three years. The Cyberport companies were expected to maintain sustained growth in operating profit regardless of the economic downturn.

New initiatives

12. The Panel noted that the Cyberport had been admitted by the China Digital

Rights Management (DRM) Forum as a standard drafting committee member. Some members enquired about the measures taken to secure more opportunities to participate in DRM issues in the Mainland and to develop mobile television (mobile TV) service in Hong Kong.   They also enquired about the new initiatives taken to improve the tarnished image and the public's perception and recognition of the Cyberport Project.

13.   The Administration advised that the opportunity of becoming a drafting committee member was made possible by the reaching of strategic partnership agreements with Mainland institutes such as the Shenzhen Hi-Tech Industrial Park and the Tianjin Hi-Tech Industrial Park.   The Cyberport would endeavour to sign more similar agreements with Mainland institutes to broaden its participation in DRM issues in the Mainland.   Similar to the 3G service, the development of mobile TV service in Hong Kong was taken forward in collaboration with the Hong Kong Wireless Technology Industry Association.   On a strategic level, the scope of Phase 2 of the Incu-Train Programme would be broadened whilst remaining under the areas of digital entertainment, digital media and digital lifestyle.   To facilitate rapid expansion in the global market, the HKCMCL would step up effort in the establishment of global platforms.   The HKCMCL would also recommend to its Board of Directors the introduction of the concept of microfinance (i.e. the provision of financial services to low-income clients) to the Incu-Train Programme, so that the incubatees could contribute back to the society.

Latest position

14.   The Administration and the HKCMCL will report to the Panel at its meeting on 8 February 2010 the progress of the development of the Project.

Relevant papers

15.   A list of relevant papers on the subject is available on the Legislative Council website at http://www.legco.gov.hk/database/english/data_itb/itb-cyberport.htm.

Council Business Division 1
Legislative Council Secretariat
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**Supplementary information provided by the Administration
after the ITB Panel meeting on 9 March 2009**

The Panel's request

The Panel has requested the Administration to provide examples and quantifiable information/statistics to illustrate the progress in achieving the **six public missions** of the Cyberport project, in particular, those relating to developing a regional centre of excellence in IT, to nurture and support the development of small and medium IT enterprises and creating a strategic cluster of quality IT and IT related companies for developing Hong Kong into a leading digital city in the region.

Extract from the Office of the Government Chief Information Officer's response in September 2009 (LC Paper No. CB(1)2564/08-09(01))

As reported in paragraph 4 of the Report on the Cyberport Project (March 2009) (LC Paper No. CB(1)955/08-09(03)), the Administration is currently reviewing the role that Cyberport can play in supporting the Statements of Desired Outcomes under the Digital 21 Strategy. We will consult stakeholders, including the Legislative Panel on Information Technology and Broadcasting and the Digital 21 Strategy Advisory Committee, to understand their expectations on Cyberport. We plan to brief the Panel again on the outcome of the review next year. The following supplements the information and statistics supplied in the Report on the Cyberport Project submitted in March 2009 and illustrates the progress as of that date in achieving the public mission objectives adopted by the HKCMCL Board.

(i) 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.

Cyberport management aims to establish a good mix of quality IT and IT related companies as tenants and to facilitate the development of various forms of collaboration between the tenants and other industry clusters and companies in related businesses, particularly world-class companies in the sector.

- *As of January 2009, there were 58 local, Mainland and overseas corporate tenants at Cyberport, including fifty-two (52) commercial enterprises, five (5) not-for-profit organizations, one (1) government office and twenty-seven (27) incubatees, all of which were engaged in IT and related businesses including the development of digital and multimedia content. Of the fifty-two (52) commercial tenants, fifty percent (50%) of them have an overseas origin and thirty-eight percent (38%) of them were new to Hong Kong. Apart from the twenty-seven (27) incubatees who are undergoing the incubation programme in the Cyberport Digital Entertainment Incubation-cum-Training Centre ("IncuTrain Centre"), there are twenty-seven (27) digital entertainment enterprises who have already graduated from the Centre.*

- *The existence of this mix of establishments at Cyberport provides an incentive for other world-class companies and clusters to develop business partnership with Cyberport tenants and incubatees, which is encouraged and proactively facilitated by Cyberport management. These overseas partners include Sony with focus on the "PlayStation 3" developments, Pixar Animation Studio – the global leader in digital animation, as well as the City of Wellington, the global leader in movie post-production. Examples of global collaboration within the Cyberport cluster led by some of its tenants include the Microsoft Xbox game development as well as the Microsoft BizSpark Creativity Centre. Another example is the recent acquisition in April 2009 of the "software as a service" assets of Outblaze, one of the first Cyberport tenants, by IBM resulting in the establishment of the first information and communications technology (ICT) development centre of IBM Research in Asia.*

(ii) *To nurture and support the development of small and medium IT enterprises as an essential constituent of such a strategic cluster.*

Examples of initiatives led by Cyberport management are as follows :

- *In October 2004, Cyberport management launched the first Xbox game incubation programme in Hong Kong. Between October 2004 and December 2005, the programme incubated no less than 6 projects, and enterprises in electronic games development, including two incubatee companies that successfully produced their original Xbox game titles and secured publishing investments from game publishers; and*

- *IncuTrain Centre was opened in November 2005 for the incubation and development of local digital entertainment firms. Up to January 2009, the Centre has graduated a total of 27 incubatees. These start-ups have developed 64 original intellectual properties (IPs) and have created a total of 343 jobs. The Centre entered its second-phase 3-year operation in April 2009 aiming to incubate at least another 55 start-ups in the digital entertainment / digital lifestyle field.*

(iii) *To provide a state-of-the-art infrastructure conducive to the creation of such a strategic cluster and its development.*

Cyberport has the following features :

- *Grade A offices with advanced technology support in a self-sufficient and compatible local community environment;*

- *Full coverage of world-class, broadband and high-speed IT & telecommunications facilities available to all tenants and visitors in providing state-of the art business and innovation support;*

- *A good tenant mix as described in (i) above;*

- *Incubation and training programmes as described in (ii) above; and*

- *Industry support centres and programmes such as the Hong Kong Wireless Development Centre, Digital Media Centre and iResource Centre.*

(iv) <u>*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.*</u>

Apart from collaborative efforts spearheaded by Cyberport tenants in developing talents in the IT and digital media sector, examples of initiatives organized by Cyberport management are as follows :

- *Theme-based professional training programmes led by world-class experts; examples include (a) "Digital Content Creation Camp" on Sony PlayStation3 technology for over 700 local game professionals in 2008, (b)"Cyberport Animation Camp" on design by Pixar Animation Studio for over 500 local animation professionals in 2006 and (c) 7 seminars in the Cyberport Speaker Series, since 2005 with over 700 local professionals in total. Programmes (a) and (b) are both first-of-its-kind in Asia, outside of their respective countries of origin (i.e. Japan for PlayStation3 and USA for Pixar Animation training);*

- *Development and testing facilities for leading technologies such as Microsoft Xbox, Sony PlayStation, and TD-SCDMA. Cyberport has the first certified TD-SCDMA base station outside of and connected to the Mainland;*

- *Incubation and training programmes as described in (ii) above;*

- *Forums and conferences for experience sharing with world-renowned experts including Oscar-winning speakers, such as the annual Digital Entertainment Leadership Forum DELF from 2004 to 2009 with over 1,500 participants in total, the annual Cyberport Venture Capital Forums CVCF from 2004 to 2008 with over 1,270 participants in total; and*

- *Over 70 educational promotion events in collaboration with*

various local organisations to encourage creativity and showcase achievements including the "Cyberport Games Marathon" that attracted more than 44,000 visitors in July 2005, the "HK Youth 3D Animation Competition", "Learning through Engineering, Art and Design Creativity Showcase 2008", "Hong Kong Youth Science and Technology Competition 2007-08 Exhibition", "Business of Design Week 2008", "2007-2008 Information Technology Challenge Award", and "Asian-Oceanian Computing Industry Organization ICT Summit 2008".

(v) *To spearhead the development of the digital media industry through the provision of hardware, software and technical support.*

Cyberport management has undertaken the following in addition to the initiatives described in (iv) above :

- *Cyberport management established the Digital Media Centre and the iResource Centre in 2004; the Centre provides shared digital content creation equipment and studio facilities as well as training and support services and introduces the most advanced technology to the local industry; the Centre has provided support for over 230 local companies and enables the local sector to deliver a complete service chain and significantly enhanced Hong Kong's competitiveness as a film and digital entertainment production centre in Asia. Cyberport operates the very first Arrilaser film recorder in Hong Kong for digital post-production processing and the very first working system for managing digital rights for digital content created in Hong Kong;*

- *In support of the local digital entertainment companies, Digital Media Centre works closely with the film industry in various major industry events such as Hong Kong Asia Film Financing Forum (HAF, in 2007 and 2008), Independent Film & Video Awards, Asia Film Awards and Hong Kong International Film Festival; the Centre also organizes showcases and exhibitions such as the first UK Barbican Art Gallery – Game On Exhibition in Asia in 2007 and the first Asia High Definition Association –*

Digital Lifestyle Showcase in 2008, to promote industry and community awareness on the latest developments in computer game culture and development and digital entertainment technologies such as Digital Terrestrial TV ;

- *iResource Centre operates the facilities for managing a wide range of digital contents, including movies and short films, using advanced digital rights management technology on behalf of local content providers and enabling legal download by content users; the services won the internationally renowned World Summit Award 2007 (e-business category) award and was a finalist in The 2008 Stockholm Challenge Award (Culture Category) in May 2008;and*

- *Cyberport has already put in place the first commercial next generation Internet network (i.e. IPv6 network) in Hong Kong. Tenants can trial run IPv6 specific applications on Cyberport's advance infrastructure.*

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

- *The Hong Kong Wireless Development Centre (HKWDC), opened in December 2003, provides a central testing platform and marketing/technical support for local wireless application developers;*

- *HKWDC installed the very first China TD-SCDMA 3G wireless base-station at Cyberport since 2006 for the local professionals to develop China 3G applications. A number of wireless applications relating to home security, streaming video broadcasting, digital entertainment and the 2008 Beijing Olympic Games have been developed and made available to local enterprises as a result;*

- *HKWDC implemented the "Ubiquitous City – HK" project to stimulate the open Wi-Fi application development and usage in*

Hong Kong. At least eight applications for provision of location-based services and delivery of multi-media content have been developed and will be launched in the public WiFi network including the GovWiFi network in Hong Kong. This promotes the Ubiquitous City image of Hong Kong; and

- *Cyberport was one of the very first premises to set up largest-scale commercial Open Wi-Fi network in Hong Kong in 2006.*