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Panel on Information Technology and Broadcasting

Meeting on 14 May 2018

Updated background brief on Cyberport

Purpose

This paper provides background information on Cyberport and a summary of views and concerns expressed by Members in previous discussions on the subject.

Background

2. Cyberport is a creative digital cluster with more than 700 community members. It has been in operation since 2004 and is managed by the Government-owned Hong Kong Cyberport Management Company Limited.

3. Cyberport's public mission is to support and promote the development of information and communications technology ("ICT") in Hong Kong. It plays an important role in promoting the development of the overall innovation and technology ("I&T") ecosystem. The three tenets of Cyberport's public mission are: inspiring the next generation, nurturing the entrepreneurial spirit and leaping on global ambition.

Inspiring the next generation

4. To spur young people's creativity and arouse their interest in ICT, Cyberport has organized a wide range of activities and competitions for students, such as "Cyberport Youth Mobile App Code Jam Competition", "Inter-School IT Elite Challenge" and "Student Formula Coding Competition".

5. Under the Cyberport Digital Tech Internship Programme, Cyberport has organized a series of Mainland/overseas and local internships where arrangements are made for ICT students to work in technology companies with Cyberport subsidizing transportation and accommodation. The objective is to provide young people with practical working experience in the ICT industry.

6. Cyberport has also launched the "e+Startup Internship Programme" which provides students with the opportunity to work with start-ups in the Cyberport community. Through this programme, participating students can acquire experience of working in fledgling start-ups. This programme instils in students interest and enthusiasm for entrepreneurship on the one hand, and provides much-needed manpower to start-up companies.

7. To enhance I&T knowledge of the industry, Cyberport has organized or supported digital technology events, knowledge transfer and training sessions at local, regional and international levels. For example, Cyberport supported and co-organized the inaugural Internet Economy Summit which attracted industry professionals, entrepreneurs, business executives, academia and officials, from around the world.

Nurturing the entrepreneurial spirit

8. On nurturing and strengthening local ICT start-ups, Cyberport provides a range of financial and professional support to start-ups so that they might progressively turn innovative ideas into prototype products and physical commodities, draw up marketing plans, raise funds and explore local and overseas markets. It carries out these objectives through various programmes, including:

- (a) Cyberport Incubation Programme ("CIP") – This programme provides comprehensive financial, technical and business advisory supports to technology start-ups to help them turn their creative ideas into business undertakings or commercial products. These include rent-free accommodation and free use of shared meeting rooms and demonstration areas. Financial assistance of up to \$330,000 may be provided to cover expenses for marketing and promotion, professional services, training, hiring of interns and use of technology services offered by Cyberport during the incubation period. In addition, Cyberport organizes a series of thematic workshops and training to equip start-ups with necessary business techniques, hone their pitching skills and help them catch up with fast-changing technologies;

- (b) Cyberport Creative Micro Fund ("CCMF") – Under this programme, Cyberport provides \$100,000 as seed funding for each selected project to turn innovative ideas into prototypes. The Cyberport University Partnership Programme was launched in 2015–2016 to cultivate talents and allows selected university students to head to Silicon Valley to join the Entrepreneurship Boot Camp arranged by the Stanford Graduate School of Business;
- (c) Cyberport Accelerator Support Programme – Cyberport launched this programme in 2014 to support incubatees and alumni to participate in local, Mainland and overseas accelerator programmes by offering valuable guidance on overseas expansion and fundraising. Upon successful application for an endorsed accelerator programme, Cyberport will provide financial assistance of up to \$300,000 to each recipient which covers programme fees, travel, accommodation and other relevant expenses; and
- (d) Cyberport Macro Fund ("CMF") – Launched on 1 August 2016 with an initial outlay of \$200 million, CMF helps start-ups in Cyberport bridge the funding gap and foster angel and venture capital investments in Hong Kong.

9. Apart from organizing and supporting tech-related events, knowledge transfer and training sessions, Cyberport has been assisting local enterprises and start-ups in adopting latest technologies (including cloud computing, e-commerce and financial technology ("FinTech")) and exploring new opportunities under the Internet economy (such as smart city and big data analytics).

10. Having regard to the demand for working space of technology start-ups, Cyberport introduces Smart-Space which offers flexible ready-built offices spaces for local start-ups and overseas companies who are looking to scale their business in China and other parts of Asia. This service is especially convenient and useful for start-ups seeking to launch their business with a workstation or small office space initially, then scale up as they grow. Cyberport has increased the provision of Smart-Space small offices and workstations by 60% within 2016, reaching a total floor area of 122 900 square feet.

11. Furthermore, the Financial Secretary ("FS") mentioned in his 2018-2019 Budget Speech that Cyberport would launch an "easy landing" programme to attract multinational companies (including overseas and Mainland leading Internet enterprises and Fintech companies) to set up offices and

research and development ("R&D") units in Hong Kong. Cyberport would also roll out a new support scheme which offers financial assistance of up to \$200,000 for each eligible start-up to conduct market research and promotion, as well as participate in business missions, trade fairs and exhibitions, etc., outside Hong Kong. The financial assistance offered under CIP would also increase by 50 per cent to \$500,000.

Leaping on global ambition

12. Cyberport works with start-ups as well as established businesses to fulfill their goals of stepping up onto the global stage. Cyberport builds partnerships with industry leaders and offers a broad range of services to connect the industry and help small and medium enterprises explore emerging business opportunities in the Mainland and overseas markets. World-class conferences, seminars, briefing sessions, training and workshops are organized to assist industry players in keeping abreast with the latest ICT developments.

13. Cyberport has plans to create clusters in the areas of FinTech, e-commerce, big data and artificial intelligence, as well as smart city. Targeted start-ups, anchor tenants and quality investors in these specific areas would be brought to Cyberport, with a view to empowering Hong Kong start-ups in these clusters in entering foreign and Mainland markets.

New Initiatives in the 2017 Policy Address

Space Sharing Scheme for Youth

14. In the 2017 Policy Address, the Chief Executive announced the launch of the "Space Sharing Scheme for Youth" ("the Scheme"). Under this Scheme, owners of revitalized industrial buildings and commercial buildings are invited to contribute floor space at a rent of no more than one-third of the market rental for suitable non-governmental organizations to operate co-working space or studios. Operating agencies will, in turn, provide co-working space or studios to start-ups, young entrepreneurs and artists at a concessionary rate of no higher than half of the market rental.

15. Under this new initiative, Cyberport will operate a Smart-Space co-working space of around 20 000 square feet in an industrial building in Tsuen Wan. Apart from offering well-equipped office facilities and a flexible leasing scheme, Cyberport will also provide a series of entrepreneurial trainings and support services, such as industry networking events, mentorship programme, workshops, investment matching, etc., to facilitate young entrepreneurs to raise funds, expand business and continue to innovate. The design and operation of this co-working space will be similar to the Smart-Space within the Cyberport

campus, with hot desks, workstations and offices. The Smart-Space co-working space is expected to house around 140 start-ups and start operation in the first quarter of 2018 at the earliest.

E-sports

16. In presenting the 2017-2018 Budget, FS mentioned that Cyberport would study the latest e-sports technology and product development, as well as to explore further promotion of e-sports in Hong Kong. Accordingly, Cyberport commissioned the City University of Hong Kong to conduct a study which consulted various stakeholders to understand the development trend of e-sports. Having made reference to the study findings and the development of the e-sports industry over the past few months, Cyberport submitted a report to the Government in December 2017 with multiple recommendations, including providing suitable space for the industry to organize more e-sports competitions and events for Hong Kong, nurturing talents and supporting the long-term development of the industry.

17. In the 2018-2019 Budget, FS announced that \$100 million would be allocated to Cyberport. The Cyberport Arcade will become a local e-sports and digital entertainment node providing a competition venue for e-sports. Meanwhile, Cyberport is considering making available within its campus a designated venue equipped with computers, audio-visual equipment and other peripherals that meet the specifications for e-sports, as well as high-speed and stable network connection, for the industry to host regular e-sports competitions, activities and trainings. From March to October this year, Cyberport has supported different organizations in the industry in hosting competitions and seminars using Cyberport campus facilities, such as the Inter-School E-sports Competition Finals 2017, the 2nd E-sports Joint School Competition, and Digital Marketplace Seminar – The New Age of e-Sports, etc.

18. As regards nurturing talents, Cyberport will leverage on its well-established start-up and talent nurturing system to identify and equip start-ups and talents related to e-sports technologies and game development, such as using CCMF and CIP to nurture more start-ups and young people to take part in game development. In addition, in view of the trend of applying emerging technologies such as Augmented Reality ("AR")/Virtual Reality ("VR") and holographic technologies in e-sports games, the Cyberport community will pull together professionals and start-ups for R&D of relevant technologies.

19. As for supporting the industry's long-term development, Cyberport would join the associations or chambers in the e-sports industry to discuss development direction. At the same time, Cyberport will assist in promoting

emerging e-sports technologies, such as the development of streaming technology and AR/VR, to enhance practitioners' knowledge acquisition and exchange.

Financial Technology

20. FinTech is currently a key development area of Cyberport. Cyberport has been collaborating with the relevant government and industry organizations and has successfully built up a FinTech ecosystem. Cyberport has gathered over 200 FinTech companies specializing in the applied R&D of blockchains, mobile payment, cybersecurity, artificial intelligence ("AI"), big data, transaction engineering, etc., making Cyberport the largest FinTech community in Hong Kong. With reference to the development mode of the FinTech ecosystem, Cyberport will extend to other technology clusters, such as e-commerce, AI, big data, etc., to meet the growing sector and market demands.

Previous discussions

Panel on Information Technology and Broadcasting

21. The Administration briefed the Panel on Information Technology and Broadcasting ("the Panel) on the Role of Cyberport in Nurturing the Information and Communications Technology Ecosystem in Hong Kong at the meeting on 11 December 2017, members' views expressed at the meeting are summarized below.

Grooming talents

22. Members noted that Cyberport would join the Scheme to provide some 20 000 square feet of Smart-Space co-working space accommodating around 140 start-ups in Tsuen Wan in the first quarter of 2018 the earliest. The Administration announced in October 2017 that 10 sites had been identified under the Scheme, and operating agencies were being identified for two of these locations in Kwun Tong. Panel members suggested that Cyberport could also run Smart-Space co-working space at these two sites.

23. As regards manpower development in the I&T sector in Hong Kong, members suggested that more internship opportunities should be offered to attract overseas students to study technology-related subjects in Hong Kong. The Administration responded that, as Cyberport had all along collaborated with local universities to enrich their I&T-related programmes, including FinTech subjects, it would step up efforts to increase the number of internship

placements as appropriate to inspire more young people to pursue a career in the I&T industry.

Funding support

24. Members were concerned with the low approval rate for start-ups in CMF, and asked if CMF's positioning was still appropriate bearing in mind the availability of other funding schemes offered by the Government or venture capital available in the market. In response, the Administration said that CMF aimed to provide start-ups with investment at the early stage of their operation. As CMF had just been launched for one and a half years, and given that lead time was needed for discussion with applicants, it was expected that more proposals would be approved in the near future.

25. Members sought clarification on the difference in Cyberport's support measures for its on-site and off-site community members. They queried whether Cyberport had monitored the operation and turnover volume of these start-ups and the economic contribution they made to Hong Kong. In response, Cyberport advised that while off-site community members were not physically located in the Cyberport campus, they could take part in all the training, programmes and activities offered by Cyberport. They could also apply for various funding schemes. Among some 400 Cyberport incubatees, over 60% had survived for three or more years after graduation. Currently, more than 350 incubatees were still in business. Cyberport had annually estimated the number of new jobs generated by its community members.

Financial Technology

26. Members expressed the view that Cyberport should formulate a holistic plan to drive the development of FinTech. Some members asked if Cyberport would provide test laboratories or develop sandboxes in collaboration with local regulators such as the Hong Kong Monetary Authority ("HKMA"), and establish a big data analytics platform for sharing of data among financial companies. They also asked if the test laboratories or sandboxes, if provided, would be made available to non-Cyberport companies as well. Members considered that Cyberport should work with HKMA to pave the way for FinTech start-ups to access the FinTech Supervisory Sandbox. In response, Cyberport advised that it had discussed with the banking sector to open up data and explore possible technical solutions to facilitate testing of FinTech products. To create a regulatory environment conducive to FinTech development, HKMA had set up a FinTech Supervisory Chatroom to enhance communication.

E-Sports

27. Members expressed concerns about the development of e-sports as many young people who had received training in science, technology, engineering and mathematics subjects were unwilling to join the industry. Apart from providing designated venues for e-sports events and participating in the relevant trade associations or chambers of commerce, members sought further details on how Cyberport intended to promote the development of e-sports and, in particular, to nurture e-sports talents. Members also asked how Cyberport would support e-sports athletes to participate in overseas competitions and promote emerging e-sports start-ups.

28. Cyberport had informed the Panel that there were ample development opportunities for young people to pursue a career in the development of e-sports software, as electronic games could now be played on many different platforms such as mobile devices rather than the traditional desktop computers or consoles. As regards grooming of e-sports talents, Cyberport said that it would collaborate with well-established technology companies in places such as Shanghai and Silicon Valley, etc., to provide internship opportunities for young people to work and to acquire practical experience. Cyberport would host more e-sports competitions and invite experts in the industry to share their insights with participants on the latest e-sports technology.

29. Upon members' request, the Administration provided information regarding the report on the development trend of e-sports submitted to the Administration by Cyberport. The information was issued to members vide LC Paper No. CB(4)608/17-18(01) on 13 February 2018.

Management and financial position of Cyberport

30. Members observed that some of Cyberport's supporting facilities, such as conference rooms, were under-utilized. Members also noted that despite a loss of HK\$77 million in 2016, Cyberport recorded a profit of HK\$112 million in 2017 due to a project income of HK\$190 million. They enquired whether such income was sustainable and whether Cyberport had engaged professionals to manage its financial assets.

31. In response, Cyberport advised that the current occupancy rate of Cyberports' lettable office space was about 95% and Moreover, renovation was in progress to provide extra office space to meet it would revisit its tenant mix to make more efficient use of its facilities. Regarding its financial position, Cyberport advised that the consolidated financial statements reflected the financial performance of the operation of Cyberport itself, as well as various

initiatives implemented by Cyberport. In the past few years, the operating profit before public mission activities expenses and depreciation was around HK\$150 million. The financial position of Cyberport was stable and could sustain the projects in pursuit of its public missions.

Finance Committee

32. At the Special Finance Committee meeting on 19 April 2018, members raised queries to the Administration regarding Cyberport's role in promoting the development of e-sports, financial situation of Cyberport, relevant incubation programmes, land use, and the training of talents.

Latest position

33. The Administration will brief the Panel at its meeting on 14 May 2018 regarding funding injection to Cyberport.

Relevant papers

34. A list of the relevant papers is set out in the **Appendix**.

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Information Technology and Broadcasting	11 December 2017	<p>Administration's paper on role of Cyberport in nurturing the information and communications technology ecosystem in Hong Kong (LC Paper No. CB(4)330/17-18(02))</p> <p>Updated background brief on Cyberport (LC Paper No. CB(4)330/17-18(03))</p> <p>Minutes of meeting (LC Paper No. CB(4)582/17-18)</p>
Special Finance Committee	19 April 2018	<p>Administration's replies to Members initial written questions (Reply Serial Nos. ITB001, ITB010, ITB011, ITB022, ITB032, ITB036, ITB037, ITB040, ITB044, ITB046, ITB050, ITB053, ITB056, ITB060, ITB070, ITB071, ITB086, ITB094, ITB108, ITB128, ITB143, ITB155, ITB166, ITB182, and ITB256)</p> <p>https://www.legco.gov.hk/yr17-18/english/fc/fc/w_q/itb-e.pdf</p>